सत्यमेव जयते

REPORT

OF

THE COMMITTEE

ON

CONTROLS AND SUBSIDIES

MAY, 1979

सत्यमेव जयते

REPORT

OF

THE COMMITTEE

ON

CONTROLS AND SUBSIDIES

MAY, 1979

सत्यमेव जयते

GOVERNMENT OF INDIA
COMMITTEE ON CONTROLS AND SUBSIDIES
MINISTRY OF FINANCE
5, Dr. Rajendra Prasad Road,
New Delhi-110001.

Hon'ble Shri Charan Singh,
Deputy Prime Minister and
Minister of Finance,
New Delhi.

Sir,

I have great pleasure in presenting to you the Report of the Committee on Controls and Subsidies appointed by the Government of India.

Yours faithfully,

Vadilal Dagli

(Vadilal Dagli)
Chairman

New Delhi,
May 15, 1979.

CONTENTS

SUMMARY OF FINDINGS AND RECOMMENDATIONS

1. History of Controls and Subsidies (Chapter 2)

Findings on Controls

(a) Many war-time controls which were devised to meet an emergency situation were gradually absorbed into a system devised to meet the needs of long term planning.

(b) At times the authorities instituting controls did not pay adequate attention to the machinery for the implementation of controls.

(c) There has been a multiplicity of controls to meet a multiplicity of objectives, and there have been instances when one set of controls has negated another set of controls, both separately conceived to achieve disparate objectives of policy.

(d) There have been occasions when the authorities imposing a control have just forgotten all about it, and the control has remained long after the need for it had been over.

(e) There has been of late an increase in "administrative" controls in lieu of clear-cut overt controls.

Findings on Subsidies

(a) Subsidies have grown substantially in magnitude as well as diversity lately.

(b) Nonetheless, many subsidies so designated are not of the nature of subsidies at all.

(c) On the other hand, many new types of policy have led to the increase of covert subsidies.

(d) There have been three types of subsidies; direct subsidies given from the budget; cross subsidies without any budgetary implication where one set of consumers has subsidised others; and covert subsidies where the cost of a subsidy has been borne by the budget but not shown as such.

2. Statutory Sanction (Chapter 3)

Findings

(a) There is a lot of economic legislation on the statute book which today is *prima facie* out of date.

(b) The totality of economic controls in the economy encompasses, first, controls directly exercised under legislation; secondly, specific control orders issued thereunder; and finally, control notifications issued from time to time under enabling control orders or legislation.

(c) Over a period, there has been a plethora of notifications and amendments thereto, modifying the control system from time to time, but they have hardly ever been consolidated and brought out in one comprehensive notification or updated control order.

(d) Apart from the legal jargon in which control orders are generally couched, the absence of any comprehensive updated version of the control system as it exists gives occasion for harassment and graft.

(e) The control system today has become so complex that even the executive authorities responsible for implementing the controls are unaware at senior levels of the exact control system which they have to implement.

(f) The Committee has been able to make only a beginning in the matter of the study of the extant controls in the Indian economy, as it has been able to example only a sample of the existing controls, and that this study cannot be deemed to be fully comprehensive or complete.

Recommendations

(1) All economic Ministries should examine all extant economic legislation, to decide which of them are totally out of date and redundant and can therefore be removed from the statute books (para 3.1.4).

(2) It should be a statutory requirement to update all controls at least on an annual basis, which could then be placed before Parliament for information (para 3.2.7).

(3) In order to simplify the control system, where there is a multiplicity of control orders on the same item, unless there are strong reasons to do the contrary, the control orders should be consolidated and brought out under one comprehensive control order; it would, inter alia, remove the internal contradictions which may exist between divergent orders, and the control law would be made fully known to the people (para 3.3.1).

(4) An attempt should also be made to consolidate and simplify all extant control orders (para 3.2.2).

(5) Purely as a matter of convenience, all control notifications should be presented in a designated part of the Government Gazette, so that those who are concerned can easily study this document and get to know the control system as it exists (para 3.2.1).

3. Approach of the Committee (Chapter 4)

Findings

(a) Over the years there have emerged two types of controls - promotional and corrective - to subserve long term objectives and short-term exigencies respectively; and that controls initially imposed to meet short-term exigencies of the War have been continued thereafter in order to subserve the objectives of planning.

(b) There has also emerged a multiplicity of controls and control organisations to meet multiple objectives of policy, some controls tending to neutralise each other.

(c) As a result there has emerged a highly complex system of controls such that even the executive authorities are not always familiar with all the control orders and

notifications, some of which have not been updated or brought together even for the last 30 years.

(d) In many areas, administrative controls as also informal controls have taken the place of formal or statutory controls.

(e) There has been an in-built tendency for the perpetuation of both controls and subsidies and to the proliferation of controls.

(f) Most of these controls have vested considerable discretionary powers on the control authorities.

(g) The system has as a result given scope for corruption in the administration of controls, the policy objectives being defeated owing to defective implementation.

(h) Controls have also led to considerable delays.

(i) Nonetheless both controls and subsidies have helped to promote a number of policy objectives.

(j) That in the context of the present inequal distribution of income and wealth and the imperfections of the market system in India, controls and subsidies are necessary in order to encourage or discourage certain types and forms of production and to provide support to certain categories of producers, and the consumption of certain sections of the population.

<u>Recommendations</u>

(1) All controls should be directed to meet the following objectives of policy:-

(a) that scarce national resources get directed to priority sectors as per national Plans and public policy;

(b) that the basic consumption needs of the people are met, and in particular, the needs of the weaker sections of the society are provided at prices within thei reach;

(c) that disparities in income and wealth are reduced and undesirable concentration of power prevented;

(d) that employment and income for large masses of people are protected by promoting the growth of the decentralised sector; and

(e) that self-reliance is pursued by promoting technological capability, import substitution and exports in tune with the resource endownment of the country (para 4.2.1).

(2) All controls and regulations should have a limited period of validity. Certain economic laws, even where these are enacted to direct the development of the economy in accord with the spirit of the Directive Principles of State Policy, need

to be evaluated periodically, say, once every 5 years, and amended if necessary (para 4.2.8).

(3) The second category of controls designed to meet temporary imbalances of one kind or the other should have a validity period of only 3 years at the most, at the end of which they should automatically lapse unless specifically extended (para 4.2.9).

(4) All subsidies should similarly have a validity of no more than 3 years, and before any subsidy is extended beyond its stipulated life, a review of the cost and benefits of the subsidy should be placed before Parliament by the concerned Department administering the subsidy (para 4.5.3).

(5) The target groups likely to benefit from any subsidy should be clearly identified, and the fact should be adequately publicised to ensure that the subsidies do reach the target group (para 4.5.2).

(6) The subsidies should be overt, so that the costs and benefits thereof can be identified (para 4.5.8).

(7) There should be a monitoring and reviewing system as part of any control mechanism (para 4.2.10).

(8) Each control should be designed to assist or to protect, or to restrain or to discourage clearly defined target groups or specified areas of activity (para 4.3.1).

(9) The control system should be simple and the points of control as few as possible (para 4.3.2).

(10) Even where control is necessary as for instance for setting up industrial capacity, the final powers of approval should be vested with one authority so that different authorities do not have veto powers in regard to any proposal (para 4.3.3).

(11) Controls should be as non-discretionary as possible and should leave the minimum of discretion to the authorities administering them (para 4.3.5).

(12) This involves consideration of an appropriate policy-mix calculated to increase availability, like steps taken to increase output, to increase supply through imports, to regulate supplies through buffer stock operations, and to regulate demand through fiscal policy adjustments (para 4.3.6).

(13) Price controls by themselves are of no value unless accompanied by an effective distribution system, and control of Government over an adequate share of the supply of the controlled item for public distribution (para 4.3.9).

(14) In fixing control over prices over distribution, prior consideration should be given to the implementability of the control and the effectiveness of the control machinery (para 4.3.9).

(15) The controlled price should not be such as to discourage the production of the controlled item (para 4.3.9).

(16) In any case, control over prices should be limited to articles which go into the consumption basket of the common man, or to intermediate goods which are either basic or are necessary for the manufacture of consumption goods required by the common man, or are essential inputs for the decentralised sector affecting large employment (para 4.3.10).

(17) In the matter of agricultural prices, the focus of attention should be on relative prices of competing crops so that the optimum use of land may result from the announcement of support prices (para 4.4.2).

(18) An adequate buffer stock should be built up, to help in the management of supply of all items the output or supply of which is subject to large fluctuations (para 4.4.2).

(19) There should be no informal or administrative controls in lieu of formal and statutory controls (para 4.3.12).

(20) By the same token, administrative control over public sector undertakings should relate to overall performance and not in terms of day-to-day management, both in regard to pricing policy and to operational matters (para 4.3.13).

(21) Export controls have to be devised so as to ensure adequate availability for domestic use of mass consumption goods or raw materials in short supply, but that a long-term export strategy should also be evolved to increase the output of exportable products so that a stable export market can be built up (para 4.3.14).

(22) The consumer movement should be purposefully developed with Government aid and the actions and decisions of the authorities should be known widely and made accessible to citizens at large (para 4.3.15).

(23) A beginning should be made by legislation calculated to make the chambers of trade, commerce and industry responsible for voluntary regulation of their members' activities and to enforce a minimum code of business conduct (para 4.3.17).

4. Industrial Approvals (Chapter 5)

Findings

(a) The simplification of procedures instituted in regard to industrial licensing through the institution of the Secretariat for Industrial Approvals (SIA) has doubtless resulted in a reduction of pendencies and in delays, but that this has been achieved essentially with the administrative expediency of delicensing of all investments upto Rs. 3 crores.

(b) This permits all manner of non-priority industries to be set up, making for a draft on scarce resources.

(c) Though there is a substantial number of industries and products reserved for future development by small scale industries, the same emphasis has not so far been given in regard to spelling out areas of production to be reserved for cottage and village industries.

(d) The type of integration between industrial licensing and overall planning which had been achieved during the Third Plan with the issue of "Programmes of Industrial Development" by the Planning Commission has not been followed lately, and that the "Guidelines for Industries" issued by the Ministry of Industry do not have the same organic link between the Plan and licensing policy.

(e) The industrial licensing system has not in consequence ensured the development of industries according to Plan priorities; has failed to prevent the growth of capacity in non-essential industries; has not also been effective in securing proper regional dispersal of industries; and has not succeeded in containing monopolies and the concentration of economic power.

(f) The liberalisation of import licensing of capital goods in 1978-79 has reportedly affected some indigenous capital goods industries adversely.

(g) The new procedure evolved for licensing of capital goods import for 14 important industries is unnecessarily cumbersome and vests large discretionary powers to the administrative authorities.

(h) Import of technology has not followed any definite plan, no systematic effort being made to import technology which is vital for the pursuit of accepted policy objectives and growth strategy.

(i) There has been significant simplification and liberalisation of procedures in regard to capital issues control.

(j) As of today, notwithstanding the institution of the SIA, there is a multiplicity of authorities each of whom can successfully block applications for the creation of industrial capacity, each applying its own separate point of view or criteria, leading to delays and giving scope for lobbying.

Recommendations

(1) In regard to industrial licensing, the following approach should be adopted:-

(a) a list of totally banned industries should be announced from time to time, such industries being denied all facilities including provision of land, water, power, etc.;

(b) among other industries, some should be reserved only for village and cottage industries in the interest of employment;

(c) some others should be open only to small scale industries with an investment limit on plant and equipment of Rs. 10 lakhs;

(d) the list of industries reserved for public sector should continue;

(e) there should be an "open" list in which no industrial licence would be required, creation of capacity being freely permitted subject to clearance under the MRTP Act and FERA where relevant; and

(f) residual industries should be subject to licensing, for all medium and large scale industries. The present exemption of Rs. 3 crores would continue for this category except for MRTP and FERA companies. (para 5.2.14).

(2) In order to minimise the discretionary element in approval of the last category of applications, wide publicity should be given in regard to applications accepted or rejected by the Licensing Committee, with dates of application of each (para 5.2.15).

(3) Where there are exemptions from licensing, registration of new capacity should be made a truly statistical matter, the registration being the responsibility of the District Industries Centres, a copy of the information being merely endorsed to the DGTD for statistical purposes (para 5.2.18).

(4) The final power to approve or veto any proposal for industrial approval should vest with one single authority (para 5.2.17).

(5) Penalities should be considered for both under-utilisation of capacity as well as pre-emption of capacity without implementation of the capacity licensed (para 5.2.19).

(6) Reliance in regard to capital goods imports should be placed on the tariff mechanism rather than detailed scrutiny of the type now envisaged for 14 key industries (para 5.3.6).

(7) Scrutiny by the DGTD should be limited to the "indigenous availability" angle and not to the "essentiality" angle which is no longer relevant (para 5.3.4).

(8) In the import of technology to be permitted, care should be taken to avoid capital intensive technology which may reduce employment, or technology in regard to products which may not be relevant from the point of view of planning goals (para 5.4.7).

(9) With the selectivity of the type indicated earlier, updating of technology and its adaptation to Indian conditions should be encouraged (para 5.4.7).

(10) Insofar as capital issues control is concerned, there should be further simplification of this system by the issue of guidelines in respect of bonus issues. Having done that, the Office of the Controller of Capital Issues should be abolished as capital issues control has outlived its utility. Control in regard to capital issues, insofar as FERA companies are concerned, should be exercised by the Department of Economic Affairs and in regard to the residual matters by the Department of Company Affairs (para 5.5.7).

5. Mining Activity (Chapter 6)

Findings

(a) There is a lot of delay in the grant of mining leases particularly where consultation between the Centre and the State concerned involves a lot of correspondence.

(b) There is confusion and delay in regard to deemed rejection cases.

(c) Powers regarding termination of leases are somewhat wide and not clearly defined.

(d) The list of minerals in First Schedule where the State Governments need to consult the Centre, is out of date.

(e) There is no uniformity of definition in respect of "foreigners" for mining lease purposes and for purposes of industrial licensing as per FERA.

(f) The Act requires production of an income tax clearance certificate before a prospecting licence or a mining lease is granted, a requirement insisted upon earlier in respect of import licences also which has since been dispensed with in respect of the latter.

(g) There is no minimum period indicated in MMRD Act for the grant of mining leases.

(h) The State Governments have powers to reserve areas for exploitation by the Government which leads to large tracts of land unexplored and unexploited.

(i) There is a tendency on the part of State Governments to stipulate several extraneous conditions in prospecting/mining leases.

(j) There is lack of coordinated action in the grant of mining leases and industrial licences based on the use of minerals.

(k) There arise problems in regard to surface rights and mining rights particularly where surface mining is concerned.

(l) There is today no check in regard to the ravaging of the environment.

Recommendations

(1) The list of minerals in First Schedule should be updated once very five years; in this connection, the Committee has, in the body of the report, made certain suggestions in regard to the immediate possibility of certain adjustments as of now (para 6.5.3).

(2) There should be no need for taking out 'certificates of approval' before a party can apply for a prospecting or a mining lease and this requirement should be done away with (para 6.3.1).

(3) Some minor definitional changes are called for in the MMRD Act as for instance the definition of "foreigners" which should be made consistent with FERA, and the extension of the coverage of the MMRD Act to minerals in the ocean-bed of the continential shelf around India (para 6.3.1).

(4) The time permitted today for taking a decision on lease applications by State Governments - stipulated at 12 months - is too long and should be reduced to 180 days (para 6.5.2).

(5) There should be a stipulation in regard to the time taken by the Centre, in respect of minerals listed in First Schedule, which should be limited to 90 days (para 6.5.2).

(6) In case of filure of either the Centre or the State Government to take a decision on the case, there should be a tribunal to finally pass orders on the case within 180 days (para 6.5.2).

(7) For non-scheduled minerals, the procedure of "deemed rejection" and of revision petitions may be dispensed with, and the State Governments may be authorised to take a final decision (para 6.5.3).

(8) There should be legal provision for applicants for mining leases for non-scheduled minerals to seek recourse to the courts of law if no orders are passed within 12 months from the date of application (para 6.5.3).

(9) The circumstances for cancellation of leases before termination should be defined more sharply, and apart from cancellation for major violations of lease conditions, cancellations should not normally be resorted to, and even where necessary, lease holders should be given some time to adjust so that loss of capital can be avoided or at least minimised (para 6.3.2).

(10) The requirement of production of income tax clearance certificate for grant of prospecting or mining lease should be done away with and procedure of submission of an affidavit by the applicant - as accepted for import trade control - should be adopted for the issue of mining leases (para 6.3.1).

(11) The minimum period for which leases should be granted should be laid down by Central notification under the MMRD Act, for different minerals (para 6.3.2).

(12) No areas should be kept reserved for exploitation by the public sector for more than five years and any such areas so reserved should be explored and exploitation commenced within a period of five years failing which the areas should be dereserved (para 6.3.2).

(13) Strict rules ought to be laid down in regard to the ravaging of environment and there should be a system of periodic inspection to ensure that no undue damage is done, the lessee being required to restore the environment at the end of surface mining operations (para 6.3.2).

(14) While changes in royalty rates should continue to be determined by the Centre in the larger national interest, periodic review should be provided so that the States get their due share of the income arising from the exploitation of minerals (para 6.5.4).

6. Essential Commodities (Chapter 7)

Findings

(a) The Indian economy is subject to temporary imbalances between supply and demand of both essential consumer goods and key industrial raw materials, so that the Essential Commodities Act is a necessary piece of legislation in the area of commodity regulation.

(b) In the past, the powers conferred under the Essential Commodities Act have been used somewhat indiscriminately, as a convenient umbrella for all manner of controls.

(c) As a result, a large number of items have been added to the list of items deemed as essential under the Act, some of which are not essential in any meaning of the term, while some others are not suitable for detailed control of the type that can be exercised under the Act.

(d) In the issue of control orders under the Act, there has frequently not been any proper homework either about the feasibility of implementation of the control or of the machinery of control.

(e) Over a period, the control orders have become extremely complex, amendments having been issued from time to time, without the finally updated version of the control ever being brought out in one document.

(f) As a consequence the control system has become avoidably complex and difficult to understand.

(g) Even the concerned executive branch of Government is sometimes not fully aware of all the extant orders on a controlled item, some unimportant control orders remaining on the Statute Book, forgotten and ignored.

(h) The orders and notifications are frequently couched in such legalistic jargon that it is impossible for the common man to comprehend the law.

(i) As far as retail trade is concerned, there are far too many orders for different items; different licences required from different licensing authorities; and too many registers required to be maintained and too many returns to be filed, which make the task of the retailer avoidably cumbersome and expensive.

(j) This provides an opportunity for harassment and graft, particularly because the powers conferred upon the executive authority under the Essential Commodities Act are sweeping, and in fact draconian in many ways.

(k) Sometimes there is no adequate consultation between the Centre and the States, and orders are issued by State Governments without consultation which creates problems for other States.

Recommendations

(1) The Essential Commodities Act should remain on the Statute Book (para 7.5.2).

(2) Any order issued under the Essential Commodities Act should have a limited life of not more than three years and should automatically lapse after the stipulated period; even the statutes should be reviewed every five years (para 7.5.9).

(3) Before an item is declared as essential, there should be proper homework to consider whether it is necessary to regulate the production, supply and distribution of the item concerned through the Essential Commodities Act; the feasibility of implementing the proposed control order; and the machinery for implementation of the control (para 7.4.4).

(4) The list of items that have been declared as essential as of now should be drastically pruned, some specific suggestions in this regard having been made in Annex 7.2 (para 7.5.17).

(5) Only such commodities as meet one or more of the following criteria should be regulated through the Essential Commodities Act:—

(a) that it is a mass consumption item which people cannot do without; or that it is an important raw material or component going into the production of such a mass consumption item; or

(b) that it is a universal intermediate which goes into the production of a wide range of products (para 7.5.5).

(6) All controls under the Essential Commodities Act, which are concerned essentially with the management of demand for scarce items, should be accompanied by simultaneous measures to augment supplies (para 7.4.8).

(7) Items declared as essential should be clearly identifiable and not covered under broad generic heads or commodity groups so as to avoid giving the executive authority sweeping powers in regard to all items included under the generic category (para 7.5.8).

(8) There should be adequate consultation and co-ordination not only to ensure reasonable management of the available supplies but also for consultation between the Centre and all concerned State Governments (para 7.5.16).

7. Export and Import (Chapter 8)

Findings

(a) Import and export trade control policy since 1977-78 has been re-oriented so as to enable the economy to take advantage of the structural changes that have taken place in the economy during the last few years.

(b) Although a genuine effort has been made towards doing away with import restrictions and simplifying procedures, there is still room for further improvement and in particular, there continues to be a tendency to change import policy quite frequently, even though annual policy announcements are made.

(c) Such frequent changes - particularly major policy changes such as have been introduced during the last year (namely, 1978-79) - introduce an element of uncertainty in the import/export trade.

(d) The present procedure for selection of items to be classified for import purposes as banned, restricted or freely importable, is somewhat arbitrary, and also based on short term considerations and pressures rather than on the basis of a scientific analysis of the needs of the economy.

(e) The approach to the grant of cash compensatory support has also been ad hoc and not based on a detailed study of the incidence of indirect taxes borne by the export product, in earlier stages of production.

(f) The aggregate duty drawback granted on the export of manufactured articles works out to around 8 per cent of the f.o.b. value of exports of such manufactured articles while even in terms of macro aggregates, indirect taxes constitute around 12½ per cent of the national income at market price, indicating a very much larger incidence of duty on manufactures - especially since there are little or no indirect imposts on agricultural items - which does not get fully compensated by way of duty drawback at the final stage of manufacture.

(g) Among the various categories of assistance given to exporters by Government, one item popularly treated as an export subsidy, namely import replenishment, does not any longer contain any element of subsidy partly because of liberal import policy for actual users and partly because of the replenishment percentage being strictly in tune with requirements of export production.

(h) Despite the categorisation of some of these payments to exporters as export subsidies - also designated here as such - some of the payments do not necessarily constitute a "subsidy" on exports in the truly economic sense.

Recommendations

(1) Import/export policies should have a validity of three years to permit suitable adjustments in the production structure (para 8.3.4).

(2) Swings in policy arising from pressures should be avoided by making the formulation and planning of policy a matter of study and evaluation by an import/export policy board, which should be set up in the Ministry of Commerce (para 8.3.5).

(3) The Board should keep under review the lists of open, banned and restricted items and the list should identify each item specifically and not by generic name or category (para 8.3.11).

(4) While short term policy adjustments are not ruled out according to changing circumstances as may be necessary, too many and too frequent changes in policy should be avoided between two policy periods (para 8.3.7).

(5) Export plans should be drawn up in consonance with and dovetailed into overall production plans (para 8.5.4.).

(6) The actual user condition on imports under the OGL should be removed (para 8.3.10).

(7) The list of items canalised for export and import through public sector canalising agencies should be carefully reviewed, criteria for canalisation laid down, and items not suitable for bulk imports de-canalised (para 8.4.6).

(8) For certain items, canalisation facilities should be extended to State Government agencies, so that they can meet the needs of small scale units by bulking their import requirements (para 8.4.5).

(9) All cash assistance rates should be reviewed and such assistance should be limited to a refund of the indirect tax element in the process of production of an export item (para 8.6.17).

(10) The interest subsidy on export packing credit is justified and should continue (para 8.6.18).

(11) To the extent possible, the scheme for advance licensing of imports of raw materials and components for export production should be extended to more items; the delay in disbursement of duty drawback should be reduced; and a way found to avoid the cost to the exporter of delays in inter-bank remittances (paras 8.6.9 and 8.5.5).

(12) No substantive part of import policy should be formulated in the G.L.I. (para 8.3.7).

(13) Where export inspection involves the charging of a fee by export inspection agencies, these agencies should be made to bear any liability arising out of disputes as to quality (para 8.5.2).

(14) Import policy should be modified from time to time to make it responsive to the needs of the economy; and procedure should be revised to minimise difficulties and to reduce delays (para 8.3.1).

(15) Protection to the domestic industry should be afforded through the tariff mechanism (para 8.3.12).

(16) Tax subsidy for market development should be given only to specified products and should be restricted to 3 years at the maximum (para 8.6.21).

8. Exchange Control (Chapter 9)

Findings

(a) Exchange control purporting to check the receipt of payments for the export of goods is today cumbersome and in any case not designed to meet future require-

ments arising from the increasing number of export transactions likely to arise as our exports increase.

(b) The present system is in any case not able to check the under-invoicing of exports; and is also not able to plug the loophole arising from the possibility of GR duplicate and triplicate forms not entering into the RBI net.

(c) There is considerable physical movement of GR forms leading to delays; and there is also possibility of loss of GR forms over the postal system.

(d) In any case, the exchange control system is not able to ensure realisation through banking channels, of inward remittances of Indians working abroad, which are increasingly becoming an important part of total foreign exchange receipts.

(e) There is today inadequate check in regard to inward remittances of profits and dividends from the substantial investments made by Indian firms abroad.

(f) The present rules in regard to foreign travel are complex, and different rules apply to different categories of citizens even though the total foreign exchange expenditure on this account is only of the order of 1 per cent of the total receipts of foreign exchange on current account.

(g) While almost all countries regulate capital transactions, the present control over repatriation of non-residents' assets arising from the dilution of foreign capital under the Foreign Exchange Regulation Act is more restrictive than warranted by the present foreign exchange position of the country.

(h) The present baggage rules as well as rules for tourists are avoidably harsh particularly in respect of Indians returning for a holiday from jobs abroad, as well as for tourists wishing to take away Indian goods including Indian jewellery, purchased at Indian prices.

Recommendations

(1) The procedure for ensuring that export receipts are realised should be simplified, the Reserve Bank responsibility being primarily directed to verification of GR originals with GR duplicates (para 9.2.5).

(2) The task of verification of GR triplicates with GR duplicates should be undertaken by the nationalised banks who are in any case responsible for realising the export proceeds on behalf of the exporters, the responsibility of the Reserve Bank being limited to sample checking (para 9.2.6).

(3) The present policy of managing exchanges by having a realistic exchange rate should be continued as a guarantee of realisation not only of export receipts but also of remittances from Indians abroad (par 9.2.8).

(4) The rules regarding foreign travel should be simplified and suitable guidelines issued for automatic grant of exchange to intending travellers by authorised dealers in foreign exchange by entering the exchange allowed on passports, so that scrutiny of individual applications by the Reserve Bank can be dispensed with (paras 9.3.7, 9.3.8 and 9.3.10).

(5) The rules regarding import of baggage by Indians returning from abroad as well as for tourists wishing to take away Indian goods at Indian prices should be simplified and rationalised (para 9.4.4).

(6) While control over capital transactions must continue, the repatriation of non-residents' assets arising from dilution of foreign capital - under the Foreign Exchange Regulation Act - may be liberalised; at the same time, the functioning of Indian joint ventures abroad should be looked into and the need and justification thereof in future re-examined in the light of data pertaining to the net gain therefrom to the economy; these data should also be presented to Parliament on an annual basis (para 9.3.9).

(7) The focus of the exchange control system should change, and instead of undue harassment of small people with small transactions, attention should be devoted to checking transactions of companies with links abroad, particularly inward remittances of profits and dividends from the substantial investments made abroad by Indian firms (para 9.4.6).

9. Housing and Construction Activity (Chapter 10)

Findings

(a) The justification of rent control arises from the fact that there are many instances of low income group people occupying premises on controlled rental, who would be hard hit if they had to suddenly pay market rents for the accommodation occupied by them.

(b) However, rent control has also led to great hardship for retired people, widows and others who had invested their life's savings for house construction, since their income has been eroded through inflation.

(c) There are, in fact, many tenants who are more affluent than the owners of the houses occupied by them, and that even some prosperous business houses enjoy a subsidy through rent control on commercial premises occupied by them.

(d) There has developed a flourishing black market by way of a 'pugree', the benefit of such gains going frequently to the tenant rather than to the house-owner.

(e) Rent control helps only those who are in occupation of rent controlled houses and not new job seekers in new areas.

(f) As far as the Urban Land (Ceiling and Regulation) Act is concerned, it has not so far given and cannot really give a boost to the construction of new dwelling units.

(g) The Urban Land (Ceiling and Regulation) Act has in fact not even been properly implemented so far.

(h) Nonetheless, it cannot be disbanded since the objectives of the Act are in line with the goals of policy.

(i) As a result of a combination of rent control and the Urban Land (Ceiling and Regulation) Act, new house construction - other than self-constructed houses - has been limited to the construction luxury residential buildings in a few urban centres making a disproportionate demand on scarce materials like steel and cement.

(j) Low income housing has not been constructed at all except by the Government, with the result that slums and shanty towns have grown up in almost all urban areas.

(k) The Municipal laws and the house building standards set by modern architects have ruled out innovative construction of houses by the poor to meet their own requirements.

(l) Municipal laws have also led to corruption and delay in approval of building plans for house construction.

Recommendations

(1) There should be no rent control in respect of commercial and office premises. In particular, buildings occupied by corporate organisations should be freed from rent control(para 10.3.9).

(2) For all other buildings, increases in the rent of old buildings should be allowed periodically, by gradual steps, over a period of, say,five to ten years, to bring the the rental to a rational level (para 10.3.9).

(3) In addition to the above, existing tenants should be allowed to buy up houses occupied by them at multiples of the capitalised value of the existing rent (para 10.3.9).

(4) The L.I.C. and other house financing corporations should be authorised to give loans for purchase of existing property by tenants on the above basis. This principle should apply to Government loans also. (para 10.3.9).

(5) Rent control should not be maintained in respect of houses occupied by tenants who own house property in the same town which they may have let out at high rental (para 10.3.9).

(6) As a result, where owners wish to occupy their own houses, one house of their choice owned by them should be allowed to be vacated in their favour, but they should not be allowed to let out the house for a minimum period of three years thereafter (para 10.3.9).

(7) When a building is divided into apartments, maintenance of the building should be entrusted to a co-operative which all residents must be compelled to form, and the residents must share the cost of maintenance of the building (para 10.3.9).

(8) In the interest of proper town planning, the Urban Land (Ceiling and Regulation) Act should be modified and extended to permit acquisition of all properties in

entire blocks, where most houses deserve to be pulled down, so that entire areas can be re-developed into housing colonies for the less affluent (para 10.4.13).

(9) Prior to doing so, the concerned authorities should give a minimum notice of five to ten years so that no new construction is started in the designated area (para 10.4.13).

(10) To achieve the social purpose a penal tax may also be levied on urban property in excess of the ceiling which may compel people to gradually change their life style (para 10.4.13).

(11) In order to encourage the poor in urban areas to build houses suited to their own requirements as well as their capacity, designated areas can be developed where "sites and services" should be provided on a subsidised basis to the poor, who would then be permitted to build houses within the areas allotted to them in accordance with their own requirements and with material improvised by them (para 10.6.5).

(12) The present legislation providing for concessions for employers for building houses for workers should be amended to allow such concessions for construction of houses for employees drawing upto Rs. 1000 per month in metropolitan areas (para 10.4.14).

(13) In order to encourage cheaper construction use of ordinary lime mortar in place of cement and steel should be encouraged and architectural standards for urban areas modified suitably to conform to housing constructed with such conventional raw material (para 10.4.14).

(14) Standard designs evolved by public authorities may be widely publicised and any building conforming to any of these plans should be automatically approved by the municipal authorities, to avoid delay, who should be given a definite time limit to approve of any other plan, and in the event of a plan being rejected, indicate clearly a basis for accepting the building plan. (para 10.6.5).

(15) Cheap, standardised construction materials should also be made available by the authorities, particularly to help the poor to build their own houses economically (para 10.6.6).

10. Subsidies (Chapter 11)

Findings

(a) Subsidies have grown to a sizeable figure during the seventies and are now becoming a very important part of the Central budget.

(b) Central Government subsidies – including losses of Central Government undertakings arising from pricing policies adopted by Government – are around Rs. 2000 crores per annum; losses of undertakings and services operated by State Governments are around Rs. 1000 crores per annum.

(c) Subsidies have a tendency to snowball and to become sticky so that they begin to generate inefficiency and complacency.

(d) There are a number of payments in the budget which are not really of the nature of subsidies, and on the other hand numerous subsidies which are not shown as such but hidden under various other types of budgetary outlays, which makes it difficult to make out all payments having the character of a subsidy.

(e) Only three subsidies, on food, fertilizers and exports (amounting to Rs. 1343 crores), now constitute 70 percent of the total budgetary subsidies of Rs. 1712 crores now given by the Centre.

(f) The pattern of budgeting and manner of payment of subsidies hides the inefficiency of operation of some sectors, as for example, in the distribution of imported fertilisers.

Recommendations

(1) The costs and recipients of benefits of all subsidies should be reviewed periodically, say, once every three years (para 11.1.2).

(2) Subsidies should in general be given only to sustain tiny unit decentralised production or to support the consumption of the weaker sections of the population (paras 11.1.5 and 11.3.2).

(3) Where necessary, clear-cut overt subsidies should be given, in lieu of indirect subsidies, e.g. losses of public sector undertakings arising out of a deliberate policy decision of Government to keep prices below the cost of production in the interest of keeping down the general price level (paras 11.4.7 and 11.5.3).

(4) The existing subsidies from the Central Government budget should be restructured in terms of the above criteria (para 11.2.4).

(5) The subsidy on foodgrains which arises partly for buffer stock maintenance and partly owing to distribution costs, should be broken up into these two elements, the cost of buffer stock maintenance being justified as a subsidy, the cost of distribution being fit for subsidy only to the extent that the beneficiaries comprise the people below the poverty line (para 11.3.2).

(6) Fertiliser subsidies should be phased out in three years and a new subsidy given for promotion of organic fertilisers; increased subsidy for the use of fertilisers should be given to smaller and weaker farmers under various promotional programmes within the ambit of the Integrated Rural Development Scheme (paras 11.3.3 and 11.3.4).

(7) Export subsidies should be restructured and granted to meet only the cumulative burden of indirect taxes in the cost of production (para 11.3.5).

(8) In the textile sector there is justification only for subsidy on production in the decentralised sector namely handloom and khadi, and in the interim period, on production of controlled cloth in the mill sector but with necessary arrangements for distribution of the controlled cloth to the vulnerable sections of the population (para 11.3.6).

(9) The interest subsidy should also be restructured, and losses of public sector undertakings arising from unrealistic pricing of products should be subsidised directly in full so that the nature and extent of the subsidy is known and realised, and attention is focussed on such subsidies which are granted in order to keep down the price of a product below its cost of production or because the concerned undertaking is sick (para 11.5.3).

(10) Entries designated as subsidies in the Budget, which do not merit being treated as such – as for instance the so-called subsidy to the BGML – should be removed from the list of subsidies by changing the accounting procedure (para 11.4.11).

(11) There is a case for increased transport subsidy in favour of hilly and far-flung regions, so as to make all essential commodities available to people in those areas at reasonable prices (paras 11.4.14 and 11.4.15).

(12) The backward area subsidy should be on a sliding scale and increased in respect of really backward areas, but given on the criterion of employment generated instead of capital invested (para 11.4.14).

(13) There should be an increased budgetary allocation as subsidy in favour of areas hit by natural calamities to compensate the population for the capital loss; and for this purpose an allocation of 1 per cent of Central and State Government budgetary outlays should be made on a regular basis (paras 11.3.7 and 11.3.8).

(14) There is a case for increasing the subsidy for housing intended for the low income people (11.4.20).

(15) The subsidy to vulnerable sections of the population through schemes like the Integrated Rural Development Scheme should be increased (para 11.3.7).

11. <u>Foodgrains (Chapter 12)</u>

<u>Findings</u>

(a) Despite the recent increase in food output, the supply of foodgrains in India is still very much a gamble on the monsoon.

(b) A very substantial proportion of agricultural holdings in India is of sub-marginal size, which is not adequate to grow enough food even for the cultivating family.

(c) The management of the food problem since independence until the mid-seventies has been a problem of demand/supply management in the context of perennial shortages in supplies; from the mid-seventies, the problem has become almost wholly one of supply management in the background of a generally comfortable supply situation.

(d) While the latter has been due to sustained effort to provide various inputs required for increased production, the fixation of reasonable "support" prices has also helped materially.

(e) Support prices have also led to the build up of a buffer stock.

(f) The focus of policy has therefore shifted from the control aspect to the supply management aspect of food policy, leading to the abolition of food zones, dismantling restrictions on food movement, and various other types of controls on food.

(g) Nonetheless, the problem of reaching foodgrains at a reasonable price throughout the year to the vulnerable sections of the population in different parts of the country - some far-flung and remote and some hilly and inaccessible — remains.

(h) The present claims in regard to the extent and coverage of the public distribution system are highly misleading; however, in the areas covered by the public distribution system, foodgrains are available at uniform prices throughout the country all through the year.

(i) The cost of public distribution in India has been higher than the cost of private retail distribution, nonetheless the former has been instrumental in exercising a moderating influence on the private trade, particularly in remote areas.

(j) The assurance of the supply has been the biggest factor in the generally smooth functioning of the distribution system in the matter of foodgrains.

(k) Over the past few years, all controls and restrictions on foodgrains have generally been lifted except for a few areas — like Calcutta and Durgapur - Asansol industrial belt — and also except for control over roller flour milling of wheat, machine hulling and milling of rice, and storage of pulses.

Recommendations

(1) The focus of attention in regard to food policy should continue to be on reasonable support prices — in line with reasonable parities, inter se, as between different crops — and on buffer stock operations (para 12.3.3).

(2) The cost of buffer stock maintenance should be a legitimate charge on revenues, for achieving food security (para 12.6.10).

(3) The subsidy required to meet the cost of distribution should not, however, be a charge on revenues except to the extent required to meet the consumption needs of people near or below the poverty line (paras 12.6.19 and 12.6.22).

(4) The subsidisation of food should therefore be limited either to the items consumed by the target group — e.g. millets — or by issue of special ration cards to people below a certain income level (paras 12.6.19 and 12.6.20).

(5) The latter should be systematically attempted so that subsidies reach only the deserving sections of the population (para 12.6.21).

(6) Private distribution channels should be harnessed for the public distribution system, with a proper code of conduct laid down for the private traders, and adequate monitoring not only by Government but by consumer committees, so that these shops function in the public interest (para 12. 4. 11).

(7) The cost of public distribution not only by the above means but also by increasing the turnover from the retail shops, for which specific recommendations are made in the Chapter on Distribution Control (para 12. 6. 17).

(8) Input subsidies for agriculture — e.g. irrigation water, power, fertilisers and seeds — should also be subsidised only for the smaller and weaker farmers, through larger subsidies under the Integrated Rural Development Scheme (para 12. 6. 17).

(9) Subsidies would also be justified for the construction of godowns and storage facilities in far-flung, inaccessible and hilly areas which frequently remain cut off from the rest of the country over part of the year (para 12. 4. 16).

(10) Insofar as control over roller flour mills is concerned, the expansion of capacity should be allowed to achieve better regional balance in flour milling capacity, but roller flour mills should be required to continue to obtain their wheat supplies from the FCI so that the buffer stocks can be rolled over, and the mills also do not create sudden large demands in certain markets (para 12. 5. 4).

(11) Insofar as rice milling is concerned, there should be controlled, selective increase in rice milling capacity, and modernisation of old hullers of mills with rubber rolls, so that the requirements of the public distribution system can be met cheaply, and at the same time, the handpounding of rice can be encouraged so as to provide employment (para 12. 5. 7).

(12) In line with the reduction in licensing and other restrictions, there should be a reduction in the number of licences to be taken out, and the number of registers to be maintained by fair price shops, so as to reduce harassment, and make the distribution system more efficient (para 12. 4. 12).

12. Edible oils and vanaspati (Chapter 13)

Findings

(a) The control over edible oils and vanaspati has in practice focussed mainly on control over vanaspati, the control affecting all facets of the industry. The industry has not been allowed to expand capacity. The input-mix of the industry has been strictly laid down, and a very substantial part of the input supplied through canalised import of cheap oils. There has been control over the production, quality, price, distribution and stocking of vanaspati. Nonetheless, the market price of vanspati has frequently been considerably higher than the controlled price.

(b) There have been a number of other controls relative to this sector. The extant controls pertain to the manufacture, sale and movement of solvent extracted oil, deoiled meal and edible flour; the processing of refined imported palm oil, the quality of vegetable oil products; the storage of edible oilseeds and edible oils

beyond certain limits; and a ban on forward trading and limitation of delivery period in respect of Non Transferable Specific Delivery contracts for oilseeds and vegetable oils. There is also, as of now, canalisation of all imports of vegetable oils.

(c) There has not only been a wide gap between the demand for edible oils and its indigenous production, but the gap is likely to continue, the estimate for supply and demand by the end of the Sixth Plan making for a deficit in vegetable oil supply of approximately 11. 50 lakh tonnes by 1982-83.

(d) The main thrust of the control system in the past has been to keep down the price of vanaspati by supply of cheap imported oils as the input for vanaspati manufacture, and thereby to keep down price of edible oils by diverting the demand from the vanaspati industry away from indigenous oils to imported oils. In the result, prices of edible oil within the country, used for direct consumption, have frequently been higher than the controlled price of vanaspati, which has had the benefit of having cheap imported oil as the input.

Recommendations

(1) In view of the gap between demand and supply which is likely to continue, cheaper edible oil should continue to be imported, but apart from providing an input for the vanaspati industry, it should also be made available for direct consumption by the masses of people, through fair price shops (para 13. 6. 4).

(2) The control over the input-mix of the vanaspati industry should continue, so that indigenous groundnut oil is available for direct consumption as an edible oil (para 13. 4. 5).

(3) The STC should be asked to go in for long term supply contracts and arrange for the requisite quantities of vegetable oil import (para 13. 6. 4).

(4) Adequate storage capacity for oils should be built around the country, particularly in deficit areas, with a view to both buffer stocking of oils and to preventing sharp increases in prices during the off-season (para 13. 6. 4).

(5) Realistic support prices for edible oils should also be announced to encourage the increased cultivation of edible oilseeds, and the import of cheaper oil should not be allowed to depress the internal market (para 13. 6. 4).

(6) For this purpose, both the canalisation of import of vegetable oils and the fiscal system by way of import duty adjustments should be used to ensure that prices of edible oilseeds and oils do not get out of hand (para 13. 6. 4).

(7) Among the other controls on the edible oils and vanaspati sector, there is need for continuance of the storage control order in the background of the general deficit in oil supply, and of the ban on forward trading, with selective relaxation of the time allowed for NTSD contracts (para 13. 6. 5).

(8) The Solvent Extracted Oil, De-oiled Meal and Edible Flour (Control) Order does not appear to have any relevance today and should be withdrawn; (para 13. 6. 5).

(9) There is a case for selective relaxation of control over the licensing of capacity in the vanaspati industry, the relatively uneconomic units being permitted to expand to economic size (para 13. 6. 5).

(10) In order to introduce some stability in the availability and price of edible oils, a buffer stock of at least two months requirements should be built up, through additional imports if necessary (para 13. 6. 4).

(11) The stipulation of use of a minimum of 5 percent sesamum oil should continue (para 13. 6. 6).

13. Sugar (Chapter 14)

Findings

(a) In the past, the policy on sugar has – especially from 1967 when the dual price policy was adopted — been attuned to increasing the availability of sugar with a minimum price for sugarcane.

(b) The policy also involved considerable divergences in the cane price from State to State and consequently in the ex-factory price for the controlled portion of sugar.

(c) The policy succeeded in bringing more area under sugarcane and also in increasing sugar production to a point of excess supply.

(d) The decontrol of sugar introduced from August 1978 has brought down the price of sugar to a level below the cost of production for a very large segment of the sugar industry.

(e) While the decontrol of sugar has been accompanied by payment of a cane price by sugar factories in line with the statutory price of sugar as laid down by the Centre, some State Governments have decided to subsidise the cane grower for the cane supply to factories by the difference between the earlier State advised prices and the present statutory prices of cane.

(f) Though this benefit of a subsidised cane price is available in respect of cane supply to sugar factories, the price realised by the growers for cane sold for khandsari or gur production is very much lower.

(g) This policy is not followed by the Southern States where the crushing season for cane is much longer and the cane has also a higher sugar content with the result that there has been some decline in the area under cane in these States.

(h) This policy has thus distorted the optimum location of cane cultivation and of the sugar industry.

(i) There has also been a take over of the management of 10 sugar mills after November 1978 in the four States of Uttar Pradesh, Bihar, Punjab and Haryana. The support required to meet even the operational costs of these units is reported to be Rs. 10 crores in 1979-80.

(j) After decontrol the consumption of sugar has gone up quite significantly with benefits of the lower price accruing even to rural areas, but with a decline in the prices and production of khandsari and gur. Over October 1978 - January 1979, the total internal consumption of sugar has been 19.6 lakh tonnes.

Recommendations

(1) In areas where it is possible to continue existing factories through better cropping methods, and the sugar industry can be made viable on a long term basis, the existing sugar factories should be converted into co-operatives of cane growers with universal membership so as to establish a nexus between the cane price and the sugar price without the need for Government intervention (paras 14.7.7, 14.7.8 and 14.7.9).

(2) Such a policy is desirable to avoid both a continuing subsidy on sugarcane as well as a continuing subsidy on sugar production which is implicit in a take over of uneconomic sugar factories (para 14.7.10).

(3) Where the sugar industry is not likely to be viable, there should be a phased programme for converting sugar units into other industrial units, e.g., cotton yarn spinning mills for supply of yarn to handlooms, even if based on cotton obtained from other States, and other agro-based industries (para 14.7.11).

(4) For this purpose, a subsidy should be given for conversion of these units from sugar production to other activities (para 14.7.6).

(5) If the above policy is adopted, there would be a case for Government subsidy for maintaining a buffer stock of sugar which may prevent swings in prices (paras 14.7.11, 14.7.14 and 14.7.15).

(6) An essential ingredient of this is uniform pricing of sugarcane (based on recovery of sugar) throughout India to bring about an optimal utilisation of the land resources of the country (para 14.7.5 and 14.7.16).

(7) Some of the extant controls on sugar, and related items are no longer relevant, and may be rescinded. In particular, there is no advantage in retaining the Sugarcane Pressmud Control Order and the Gur (Regulation of Use) Order (paras 14.4.2 and 14.4.5).

14. Textiles (Chapter 15)

Findings

(a) A major problem of the textile industry arises from the fluctuations in the output and prices of raw cotton.

(b) Neither the "control" of the ceiling price nor the "support price" of cotton has worked successfully, and "support prices" have been too low to lead to any increase in the area and output of cotton.

(c) A large part of the cotton output is lost annually because of pests and insects, the estimated loss being as much as around 30 per cent and even 40 per cent in case of an epidemic or pestilential attack.

(d) Although the Cotton Corporation of India was set up with a view to stabilising the price of cotton through effective intervention in the cotton market, and although various committees have recommended that to be really effective, the Cotton Corporation should buy at least 30 per cent of the cotton output, the Corporation has failed to do so.

(e) The Cotton Corporation has never been provided the funds with which to achieve the above target, and has also been hamstrung by directives from the Ministry.

(f) The Cotton Corporation has suffered a heavy loss on imported cotton which has had to be subsidised, because of the timing of the import purchases made by the Corporation at the behest of the Government, coupled with the refusal of the textile industry to lift the imported cotton even though it had made a firm commitment at the import prices indicated by the Corporation prior to ordering the imported cotton.

(g) The opportunity of a build up of a buffer stock of cotton was missed last year when cotton was allowed to be exported rather than purchased by the Cotton Corporation for building up a buffer stock.

(h) The textile industry has a total of nine control orders issued at different points of time under the Essential Commodities Act, covering various facets of the textiles industry.

(i) Of these the Cotton Textiles (Control) Order of 1948 — which exercises comprehensive control over the mill sector of the cotton textile industry — has been amended from time to time but has never been up dated and brought out in a manner calculated to indicate the finally amended control system as it exists.

(j) The control low has as a result become quite complex and generally unintelligible.

(k) It has been a policy objective to limit the expansion of weaving capacity in the mill sector in the interest of employment in the decentralised sector.

(l) There are many reasons for sickness in the textile industry including management weaknesses. The hypothesis of limitation of expansion of weaving capacity having led to the sickness of mill industry is not convincing because more than a 100 mills were already sick, long before the production of controlled cloth became a losing proposition for the mills.

(m) The obligation of controlled cloth production imposed on the mill sector has led to economic difficulties of this industry.

(n) Insofar as the decentralised sector is concerned, it — and the handloom weaving class in particular — suffers from many disadvantages and disabilities including the high price and inferior quality of yarn, non-availability of yarn at times, lack of finance and lack of marketing.

(o) Even the policy of reservation of certain categories of cloth for production only by handlooms has not helped because of poaching by the powerloom sector.

(p) There has been steady growth of unauthorised powerlooms which has been abetted by some States, to the detriment of the growth of handloom production and disadvantage of the other States which have not permitted the expansion of powerlooms.

(q) With the introduction of synthetics, blended yarn has not been available to the decentralised sector, and mill production has increasingly turned to production of cloth varieties intended for the well-to-do classes.

(r) There is some degree of compartmentalisation of production between different segments of the textile industry, though lately there have been some relaxations which have benefited only some segments of the industry.

(s) In the woollen industry, the decentralised sector has been facing yarn shortage, particularly the indigenous yarn required for carpet weaving and barrack blanket making.

(t) There has also reportedly arisen a shortage of woollen yarn spinning capacity.

(u) The large woollen industry is quite small in comparison with the large scale cotton textile industry, and needs protection from the diversification facility granted to the latter.

(v) Of the diverse clauses of the nine control orders relevant for the textile industry, many are dormant and not in use, and many others irrelevant in today's situation.

Recommendations

(1) The Cotton Corporation of India should be freed from bureaucratic control, given necessary funds and general guidelines, and authorised to buy upto 30 per cent of the cotton crop, and also build up a buffer stock of cotton for which it should be given requisite credit facilities (para 15.3.11).

(2) The Corporation should be divested of its bureaucratic character, its shares being held jointly by the Central Government, cotton marketing co-operative federations of the cotton growing States, co-operatives of cotton farmers, etc. (paras 15.3.14 and 15.3.15).

(3) Cotton ginning and pressing should be reserved for co-operatives of cotton growers with universal or near universal membership (para 15.3.16).

(4) In order to raise the output of cotton, the spraying of the cotton crop with pesticides should be a national programme, the cost being met from the cotton cess fund (para 15.3.18).

(5) The cess on cotton should be raised from the present 25 paise per bale to Rs. 50 per bale, or about $1\frac{1}{2}$ per cent of the price per bale, in order to pay for the above as well as for the carrying charges of a part of the buffer stock of cotton to be built up (para 15.3.18).

(6) There should be no canalisation of and no subsidy on imported cotton in future (para 15.3.13).

(7) The control over the weaving capacity of the mill sector should continue (para 15.4.5).

(8) The Soft Loan Scheme of the IDBI should not be used for expansion of weaving capacity/reduction of employment in the weaving section of the industry, and for financing the modernisation/replacement of well-to-do mills at interest rates not available to the decentralised sector (para 15.4.8).

(9) Price stamping of mill cloth is redundant and should be withdrawn except for Janata cloth which is subsidised (para 15.4.8).

(10) The reservation of spheres of production by handlooms should be enlarged, and the control enforced (para 15.5.9).

(11) For this purpose, there should be regulation of the sale of looms by the textile machinery manufacturing industry (para 15.9.8).

(12) Some varieties of cloth production should be reserved for the powerloom sector, though the expansion of this sector should not be allowed (para 15.5.9).

(13) Excise duty on yarn in cones should be raised vis-a-vis yarn in hanks (para 15.5.9).

(14) The area of reservation of products for the handloom sector should be enlarged to include sarees and dhotis with border (para 15.5.9).

(15) Control over production of yarn in hanks should be made more stringent in regard to proportion and quality (para 15.5.9).

(16) Disbursement of subsidy on handloom (on production of Janata dhotis and sarees) should be speeded up and the procedure and documentation simplified drastically (para 15.5.9).

(17) The supply of good quality yarn at reasonable prices for the decentralised sector should be ensured, and until sufficient capacity for yarn production, by spinning mills set up by Government or by the co-operative sector, is created, there should be a compulsory obligation for producing a certain percentage of yarn in hanks (para 15.5.7).

(18) Both handloom and khadi should be encouraged through compulsory Governme purchases as well as a price preference in favour of the khadi handloom sectors (para 15.5.10).

(19) The multifibre approach should be reduced to one of merely meeting the defici in cotton availability, and not as a part of conscious policy to encourage the growth of multifibre fabrics (para 15.6.3).

(20) The supply of blended yarn to handlooms should be ensured (para 15.5.9).

(21) There is no case for a reduction of the duty on synthetic fibres which may affect the interests of the cotton growers adversely (para 15.6.5).

(22) There should be encouragement given to the hand made carpet weaving and barrack blankets industry in the same manner as for khadi & handlooms, and expansion of capacity for mill made tufted carpets should not be allowed even for export, as they would impinge on the supply of indigenous woollen yarn for the decentralised sector (para 15.8.6).

(23) Controlled expansion of spinning capacity in the woollen industry should be allowed, to meet the needs of hosiery, and similar knitted woollens industry (para 15.8.6).

(24) When there is short supply of raw cotton and need for import of man-made fibres, the import should be through the STC on a well regulated basis so that the requirements of the decentralised sector can be met (para 15.6.5).

(25) Distribution of controlled cloth should be linked to the distribution of other essential articles to the target group (para 15.4.12).

(26) The varieties of cloth to be subsidised for distribution should be such as are purchased by the lower income groups, and supplied through shops located in areas where low income people generally live (para 15.4.13).

(27) A large number of controls at present on the Statute Book in respect of the textile industry are redundant and should be removed (para 15.9.8).

(28) The control law should be succintly brought out in a comprehensive document (para 15.9.8).

(29) The office of the Textile Commissioner should be wound up and the residual control functions — including powers of prosecution for violation of Government orders — should vest with a Textiles Development Board, incharge of the co-ordinated development and regulation of the entire textiles industry, covering khadi, handlooms, powerlooms and the mill sector (para 15.9.9).

15. Jute (Chapter 16)

Findings

(a) The major problem of the jute industry is the instability in the price and availability of raw jute arising partly as a result of sharp fluctuations in acreage and partly as a result of vagaries of the weather.

(b) The acreage fluctuations have been inversely related to changes in raw jute prices.

(c) The jute grower does not get a reasonable price for raw jute because of the present defective system of raw jute procurement, the grower being cheated not only on the price but also in the matter of grade of jute, moisture content, etc.

(d) The jute trade is today mainly in the hands of benami procurers on behalf of the mills and there is a wide gulf between the price for raw jute paid by the mills officially and the price received by the grower.

(e) Exports of jute goods have been good in spells, as for instance between 1961 and 1965 when raw jute prices and jute availability were relatively stable.

(f) The growth of synthetics has been accentuated and accelerated by the sudden sharp changes in prices and availability of jute goods.

(g) Government policies, particularly in the matter of export duties which have been sticky in the extreme, have also contributed to halting exports and to accentuate problems of the industry.

(h) As a result of cupidity in the matter of raw jute purchase and various other problems indicated above, the jute industry has been in a state of sickness and bad health, and the management of a number of sick mills has had to be taken over by Government.

(i) The need for a reasonable support price for raw jute and for the creation of a buffer stock of raw jute was realised quite early, but in spite of fairly severe control provisions under the Essential Commodities Act, it has not been possible to maintain the price of raw jute at a reasonable level.

(j) The Jute Corporation of India — which was created specifically with a view to stabilising the price of raw jute and to operate a buffer stock for this purpose — has failed to achieve any of the above objectives of policy.

(k) The reasons for the Jute Corporation's failure have been numerous: it does not have the requisite organisation to intervene effectively in the primary market; it has never been given the requisite finance; and it has been hamstrung by instructions received from Ministry in regard to its operations, which has left generally powerless.

(l) Apart from the Jute Textiles (Control) Order of 1956 and the Jute (Licensing and Control) Order of 1961 — both issued under the Essential Commodities Act — there is control over the jute industry and trade in respect of forward contracts; and there is voluntary registration of export contracts and canalised import of raw jute.

(m) The main control stems from the Jute (Licensing and Control) Order which confers on the authorities wide powers of control over the jute industry.

(n) None of the fairly stringent controls on jute and jute goods, has been able to resolve the basic problem of either the jute grower or of the jute industry, and it is widely alleged that there is considerable play of unaccounted money in the jute industry particularly in the purchase of raw jute, while the industry continues to be in difficulties.

(o) Forward trading in jute goods is likely to lead only to increased speculation, and is therefore rightly banned.

Recommendations

(1) In order to resolve the problems of both the growers of raw jute and the jute industry, there should be monoply procurement of raw jute by the Jute Corporation of India (para 16.7.19).

(2) In undertaking this task, the Jute Corporation should seek the help of local authorities and build up an organisation suited to each of the jute growing areas in consultation with the State Government and other concerned authorities (para 16.7.19).

(3) In order that the Jute Corporation is made fully responsive to the needs of the situation, it should be converted to a joint sector organisation in which, apart from the Central Government, the Governments of West Bengal and other jute growing States may hold shares with possibility of some share-holding also by co-operatives of jute farmers or other organisations of jute growers (para 16.7.24).

(4) The Jute Corporation should seek the assistance of organisations like the Indian Jute Research Institute for the grading of raw jute (para 16.7.23).

(5) The Jute Corporation should also be put in a position to build a buffer stock of raw jute so as to stablise the price and availability of jute to the industry, the carry over stock of raw jute at the end of the season being a minimum of 10 lakh bales (paras 16.7.25 and 16.7.26).

(6) Prices of raw jute should be determined by an independent body like the Agricultural Prices Commission after careful consideration of price parities between jute, paddy and other competing crops (para 16.7.19).

(7) The period until the new jute crop should be used for the required build-up of the organisation of the Jute Corporation (para 16.7.25).

(8) With the above change, a number of formal controls on the jute industry can be phased out (para 16.7.27).

(9) The scheme for registration of export contracts may be continued (para 16.6.26).

16. Fertilisers and Pesticides (Chapter 17)

Findings

(a) The costs of production of fertilisers vary substantially from unit to unit because of the divergent feedstock allowed by Government to different units, the cost of fuel oil and coal based fertilisers being significantly higher than the cost of naphtha and natural gas based fertilisers.

(b) In spite of substantial increase in production of late, there is still need for sizeable import of fertilisers.

(c) The present consumption of fertilisers in India is heavily weighted in favour of N which, it is recommended, should be corrected for a more balanced use of fertilisers.

(d) The fertiliser industry is both capital intensive and corrosive, and the cost of production of new units is substantially higher than the cost of production of existing units, which however would have a high replacement cost.

(e) There is at present a subsidy on indigenous nitrogenous fertilisers, in order to keep the price low for the farmer; a promotional subsidy on phosphatic fertilisers; a subsidy on imported fertilisers; and a subsidy for internal freight so as to equate the price of fertilisers throughout the country.

(f) The total amount of subsidy given for fertilisers has been increasing rapidly of late.

(g) There is evidence that fertilisers are fairly widely used both by large and small farmers but the use of fertilisers is still generally limited to certain selected areas.

(h) From all available evidence, the return from fertilisers in terms of higher output is several times the cost of fertilisers.

(i) Insofar as imported fertilisers are concerned, there are certain problems which prevent the import of fertilisers in bulk which would be much cheaper than the import of bagged fertilisers.

(j) The cost of distribution of imported fertilisers by the FCI is considerably more than the cost of distribution by other agencies lately asked to handle part of the imported fertilisers.

(k) In spite of numerous efforts, and the facility of a subsidy from the Department of Agriculture, the progress of both construction of Gobar Gas plants and compost pits as also of plants for treatment and composting of urban wastes has been very slow.

(l) The loss of crops from pests varies from 10 to 30 per cent on a conservative estimate, and where there is an attack of pests in epidemic form, the loss is significantly higher.

(m) For many crops, it has not been possible to rely on the efforts of individual farmers because pests move from smaller farms where pesticides are not applied to neighbouring larger farms, thus nullifying the effect of the application of pesticides.

Recommendations

(1) Price control on fertilisers has to continue because of the widely divergent cost of production of different units based on different feedstock (paras 17.7.5 and 17.7.7).

(2) Some relaxation in the control on distribution/movement of fertilisers is called for so as to have flexibility to the producers to sell outside their command area (para 17.5.11).

(3) The subsidy on fertilisers on a long-term basis should not continue but cannot be given up suddenly and should be eliminated only in a series of steps over a period of, say, five years (para 17.7.13).

(4) In the mean time, older plants should be given a special allowance for replacement of equipment by putting the pooled price at a level higher than the weighted average retention price, the difference being funded for replacement of equipment of the older units (para 17.7.6).

(5) The subsidy on imported fertilisers should be eliminated by reducing the cost of handling and distribution which appears to be feasible (paras 17.5.8 & 17.5.9).

(6) A separate subsidy for fertilisers could be continued, rather increased, under various Integrated Rural Development Schemes so that the use of fertilisers could be popularised and the benefit of the subsidy reaches the target group already identified (paras 17.7.13 and 17.10.1).

(7) The subsidy on Gobar Gas plants, compost pits and composting of urban wastes should be increased in order to improve the availability of organic manure and also to save on kerosene and firewood as fuel and for lighting purposes (para 17.8.3).

(8) The subsidy on Gobar Gas plants should be available for all designs of Gobar Gas plants and not merely for designs approved by the KVIC (para 17.8.4).

(9) There should be a national scheme for spraying major crops with pesticides, part of the cost of which should be subsidised (para 17.9.5).

(10) In determining agricultural prices, note should be taken of the totality of subsidies as well as the cost of inputs so that prices are determined on a realistic basis (para 17.7.14).

17. Coal (Chapter 18)

Findings

(a) After nationalisation of the coal industry in 1973, controls on it are "administrative" rather than statutory, though earlier controls still remain on the statute book.

(b) Statutory control on distribution is effective only in regard to soft coke which State Governments control under the Essential Commodities Act.

(c) The administrative control on coal has kept coal prices generally low, involving a subsidy of around Rs. 140 crores in 1978-79.

(d) The spread in the prices of different varieties of coal — based on their heat value — is too narrow, and encourages the demand for the scarcer varieties of coal, and discourages the use of "middlings" and poorer grades of coal.

(e) The supply of coal to all but a few "essential" categories of consumers is irregular, and there is a black market in coal.

(f) The present system makes for a sub-optimal loading/transport arrangement from the point of view of the economy as a whole.

Recommendations

(1) The price of coal should be determined by an independent authority (like the BICP) with a view to discouraging improvident uses of coal (para 18.7.1).

(2) In the pricing formula, there should be an economic incentive to use slack coal and "middlings", and a disincentive to use the scarcer varieties of coal (para 18.5.8).

(3) In order to rationalise movement and distribution, as also to resolve disputes as to the price of coal, steel plants should have captive coking coal mines (para 18.6.3).

(4) Coal dumps should be established at convenient centres (in district headquarters and cities with a population above 50,000) (para 18.6.5).

(5) The overall cost of distribution should be reduced by using ropeways, and also by loading wagons in outlying mines and shunting the coal to central points for the formation of rake loads, for which Coal India should own and operate wagons and shunters (para 18.6.4).

(6) Existing subsidies on sand stowing and other development works are inadequate and need to be increased several-fold either by increasing the cess on coal or by increasing the coal price, and making sand stowing a part of the normal operational routine (para 18.7.4).

(7) The existing legislation on coal, by way of the Coal Mines (Conservation and Development) Act of 1974; the Coking Coal Mines (Emergency Pro-

visions) Act of 1971; and the Coal Mines (Taking Over of Management) Act of 1973, are all redundant now, in view of the nationalisation of the coal industry; similarly, the Colliery Control Order of 1945, currently under the Essential Commodities Act, is also redundant; the subsidies now granted through cess/excise collections could also be made a direct charge on the cost of coal (para 18.5.7).

(8) The Coal Controller's organisation which does not have any really useful function today, should be merged with the CIL (para 18.5.8).

(9) Coal mining can be selectively allowed to State Governments or co-operative societies (particularly in hill areas) supported or sponsored by State Governments (para 18.6.6).

18 Steel (Chapter 19)

Findings

(a) Although a very large part of the steel output goes to a limited number of identifiable users, the distribution of steel to the decentralised sector has so far been uneven and the monitoring of the control system has not been satisfactory. As a result, black market premiums have emerged and small users have been at a disadvantage in the matter of steel supplies.

(b) The tight control kept on the price of steel, statutorily until the sixties and administratively thereafter, had led to a situation in which the integrated steel plants have not been able to generate adequate resources for their own modernisation and expansion. The expansion of steel capacity required for the development of the economy, therefore, has to be financed from public savings which involves a subsidy from the general taxpayer to the user of the steel and steel products.

(c) Though formal control was given up in the mid-sixties, there has been a tight administrative control on steel prices, exercised by Government thereafter.

(d) The experiment at dual pricing as operated in the past, from 1973, has involved a subsidisation of steel used by the public sector by other users of steel, and has also encouraged misuse of the cheaper varieties of steel (like plates).

(e) There has been tight control over the use of alloy steel and stainless steel, by way of highly restrictive policy in the past and a prohibitive import duty on some categories of stainless steel of late. This has led to the use of mild steel in lieu of alloy steel in many engineering industries, to the detriment of the growth of such industries.

(f) The main part of the control mechanism - the Iron & Steel Controller's organisation - has lost its utility today, and appears to be redundant. So are bodies like the Steel Priority Committee and the Iron Ore Board, all their planning and advisory functions now properly vesting with the SAIL and the JPC.

Recommendations

(1) The tight administrative control over steel prices should be relaxed. Government should lay down guidelines indicating the priority sectors (which should be kept down to a very few, possibly only Defence needs and export production), the prices to be charged from the priority sectors, and other relevant parameters. For the rest, the SAIL should be free to charge prices as per market demand (para 19.11.4).

(2) If any department wishes that steel should be made available to any priority sector at a concessional price, it should subsidise the use of steel by that sector out of its own budget, so that the costs and the beneficiaries of the subsidy can be identified (para 19.11.4).

(3) The present system of distribution has not worked to the advantage of small scale industries and for the decentralised sector. The Small Scale Industries Corporations should improve their efficiency and reduce costs. In any case, the trade would be in a better position to meet the requirements of the small producer and the small user of steel, and should be given a bigger role in steel trade with the safeguard regarding pricing, which would reduce the possibility of black marketing in steel (para 19.7.6).

(4) The import of ferrous scrap should be freely permitted under OGL (para 19.8.2).

(5) The canalisation of steel import should be continued for bulk items, and imported and indigenous steel should be pooled and sold at uniform prices. For all "mis-matched" steel sections, free import should be allowed (paras 19.11.5 and 19.11.6).

(6) The complex system of licensing and approvals by the Iron & Steel Controller in the downstream steel industry may be dispensed with, and the creation of capacity in the steel industry - other than in respect of integrated steel plants - should follow the same procedures as for all other industries, namely, there ought to be a banned list, a free list, and a restricted list to be licensed on merit (para 19.9.2).

(7) The functions of the Iron & Steel Control organisation should be merged with the SAIL or the JPC, the recommendatory authority in regard to the capacity being the Technical Wing of the Department of Steel. The Steel Priority Committee as well as the Iron Ore Board could also be wound up (paras 19.9.2, 19.9.3 and 19.9.5).

19. Non-ferrous Metals (Chapter 20)

Findings

(a) In the area of non-ferrous metals, apart from formal controls, there have lately been a number of administrative controls.

(b) Apart from price control, there has been canalisation of import of major non-ferrous metals, aluminium, copper and zinc all being so canalised.

(c) Price and distribution control have been applied extensively in respect of aluminium though other metals have also been subject to controlled distribution through allocations from time to time, and also to prices determined administratively.

(d) In the policy of price control adopted for non-ferrous metals, there has been no consistent approach nor any detailed study of the implications of the controls prior to their being instituted.

(e) In the matter of aluminium, a number of divergent objectives have shaped policy, the consequences of which have not been carefully worked out; and similar lack of any consistent long term approach has influenced the pricing of copper and zinc.

(f) Copper prices in particular, and also zinc prices have been subject to considerable speculative fluctuations in the international markets which have led to similar fluctuations in domestic prices of these metals, leading in turn to the emergence of speculative changes in the demand for these metals.

(g) The indigenous cost of production of copper - which is a key raw material for a large number of key industries - is significantly higher than the world prices owing to the lean grade of copper ore available in the country.

(h) Some of these industries being capital intensive as well as power intensive, there have arisen serious problems in the matter of pricing for new units as also for different units paying widely divergent rates for power.

(i) These metals being of strategic importance, as also basic inputs for a large number of important industries, there is need to evolve a policy which would both provide a minimal protection to indigenous production for strategic reasons, and also the evolution of a policy which would both insulate the domestic producer against international price fluctuations and not raise the general cost structure too much.

Recommendations

(a) Aluminium

(1) In regard to aluminium, there should be a more realistic system of power rates for all aluminium smelters which should be based on the opportunity cost for power and not on the cost of generation of any one power station feeding a particular smelter; the above would in turn require price pooling until this major input cost for all producers is more or less equated (para 20.2.6.1).

(2) These changes should be made in gradual steps over a period of, say, five years so as to avoid the shock of sudden change, and to allow a period of transition (para 20.2.6.1).

(3) The divergent capital costs of new and old units could be allowed by way of excise duty rebates or similar fiscal adjustments (para 20.2.6.1).

(4) This would enable the price of aluminium to be freed from control in course of time, so that there is incentive for greater efficiency of production (para 20.2.6.1).

(5) In the meantime there should be a uniform pooled price with different retention costs for different units (para 20.2.6.1).

(6) A buffer stock of, say, approximately 20, 000 tonnes (as would appear on prima facie grounds) of aluminium should also be built up so that the management of supply could ensure continued availability of aluminium, and a truly competitive price of aluminium could emerge when control is finally lifted (para 20.2.6.1).

(7) Production control on the quantum of EC grade aluminium to be produced should continue to ensure availability (para 20.3.6.1).

(b) Copper

(8) In the case of copper, with the only producing unit in the public sector having a higher cost of production than imported copper, a "managed" price should continue (para 20.3.5.1).

(9) To achieve the above, the canalisation of import of copper - which has in any case proved to be beneficial- should continue (para 20.3.5.1).

(10) In order to ensure a fair price of copper, which can also be sustained, a buffer stock of, say, approximately 30,000 tonnes (as would appear on prima facie grounds) of copper should also be built up, taking advantage of downward swings in international prices for inventory build-up (para 20.3.5.1).

(11) On the above basis, copper prices should be announced after pooling the prices of indigenous and imported copper, on an annual basis (para 20.3.5.1).

(12) There should be suitable price differential between special high grade electrolytic copper wire bars and ordinary fire refined copper (para 20.3.5.1).

(c) Zinc

(13) For zinc there is similar need for managed prices and of pooling of prices (para 20.4.5.1).

(14) In pooling zinc prices, however, distinction should only be made between pricing of zinc based on imported concentrates - which is normally linked to the international price of zinc - and pricing of zinc based on indigenous ore mining, and other considerations should not be brought into play in price determination (para 20.4.5.1).

(15) A buffer stock of, say, approximately 25,000 tonnes (as would appear on prima facie grounds) of zinc metal should also be built up, as for other non-ferrous metals, so as to introduce stability in supply and prices (para 20.4.5.1).

(16) Canalised import should also continue for zinc for the same reasons as for copper (para 20.4.5.1).

20. Cement (Chapter 21)

Findings

(a) Price control over cement in the past has been a strong factor in inhibiting the growth of capacity in the cement industry.

(b) Past control over distribution has given unmerited profit to the middlemen and even the new system of distribution initiated recently is not likely to be free from black market transactions in cement.

(c) There has also been inhibition in regard to creation of capacity in the cement industry by the large houses and licences have been given to new parties who have not succeeded in establishing cement capacity.

(d) Investment by Government in cement industry has also been limited, and in particular there has not been adequate investment in cement industry in the deficit areas.

(e) The above has been accentuated by the freight pooling system, and more particularly, an uniform ex-factory price of cement throughout the country without reference to the cost of transportation.

(f) As a result, there has emerged a substantial gap between the demand for and supply of cement which is currently estimated at between two to three million tonnes per annum.

(g) Import of cement does not provide a solution because apart from the high price of imported cement there are limitations even of port capacity.

(h) One consequence of the controlled price of cement has been the somewhat profligate use of cement and gradual elimination of traditional building materials including lime mortar and other substitutes for cement.

(i) The system of controlled price and distribution has inhibited innovative changes both in production and marketing techniques in the cement industry.

(j) There has also been control in the matter of import of new technology justified on grounds of encouragement of indigenous research which has held up the possibility of increases in output with relatively low investment.

(k) The new system of distribution introduced since October 1978 in some areas and in January 1979 in some others provides for complete allocation of all concerned by governmental authorities and is likely to make for further rigidity in the distribution system.

(l) This would already appear to have happened in some of the areas where it is claimed that the new distribution system has been working well;

(m) In any case the rigid distribution system can only function in a regime of scarcity and is unlikely to function when there is no shortage of cement in the country.

(n) As a result of the control over pricing and distribution of cement, the large users of cement including those whose requirements cannot be deemed to be of high priority have got supplies of cement at concessional prices while cement manufacturers have not got the benefit of high prices, and black market money has been made by distributors and middlemen in respect of a substantial part of cement.

Recommendations

(1) There should be no licensing control in respect of cement expansion (para 21.2.4).

(2) While price and distribution controls and freight pooling cannot be given up, differential retention prices should be worked out so as to encourage the creation of capacity in deficit areas (paras 21.4.3 and 21.4.4).

(3) A special allowance of at least Rs.20 per tonne of cement should be allowed to producers - increasing the price of cement by Re.1 per bag - and the proceeds funded, to be released for expansion of the industry (para 21.8.6).

(4) In the pricing formula, split locations should be encouraged so that grinding plants can be set up nearer the consuming centres, so as to reduce the burden on the transportation system, through the movement of clinkers in open wagons (para 21.3.9).

(5) The manufacture of pozzolana cement should be encouraged and Government departments should be asked to use pozzolana cement so as to increase the total supply of cement in the country (para 21.8.1).

(6) There should be increased emphasis on setting up capacity for grinding cement, to be fed initially by imported clinkers, which Government is already considering (para 21.8.1).

(7) There should be freer import of technology for purposes such as precalcination of cement with a view to increasing output at minimal investment cost (para 21.8.5).

(8) Rules regarding building and construction should be changed to permit construction of buildings with substitute materials like lime mortar, and at the same time, the use of cement for ostentatious and low priority purposes such as the concreting of pavements and construction of fountains in urban areas should be banned; also five-star hotels and similar multistoreyed buildings may be asked to pay the full import price of cement for their requirements (paras 21.8.2. and 21.8.3).

(9) To the extent controls are considered necessary on cement price, distribution etc., the same may be exercised under the EC Act instead of the IDR Act (para 21.4.2).

21. Paper and Newsprint (Chapter 22)

Findings

(a) There are only two controls on the paper industry as of today, one on percentages of different varieties of cultural papers to be produced by mills, and the other an "informal" control over the price and distribution of white printing paper required by the student community.

(b) Inspite of the paper industry making frequent complaints as to the rigours of price control it has for some time been making fairly good profits, and yet there has been no marked investment interest in the paper industry.

(c) This has been due partly to the long gestation period of investment and partly to the requirement of large investment funds for this industry; at the same time, investment in the paper industry had suffered because of lack of clarity in licensing policy, a number of schemes prepared by large houses being rejected.

(d) There has also been evidence of the generation of considerable black money in the paper industry in spite of there being no price control over most varieties of paper.

(e) The control over the distribution of white printing paper has been weak and both the system of allocation and the system of distribution have been designed without much thought or pre-planning so that the system is open to various leakages.

(f) The informal control over the price of white printing paper – at Rs. 2750 per tonne - has continued since 1974 without any change.

(g) There has been inadequate control over and non-observance by mills of the regulations pertaining to, environmental pollution; the effluent discharge of the large paper mills continuing to pose a serious problem of water pollution.

(h) Inadequate thought has been given to the long term supply of paper without creating an ecological imbalance through the cutting down of forests, and even short term export/import policies in regard to this industry have been ad hoc and not attuned to long term needs of the industry.

(i) There have been two problems in relation to newsprint control, first in regard to the tight control exercised over newsprint allocation, and secondly, in regard to the pricing of newsprint produced by NEPA mills.

Recommendations

(1) The control over varietal production imposed on the paper industry should continue (para 22.5.5).

(2) There is no justification for any "concessional" (and informally controlled) price for Government purchase of paper which has in any case not accrued in practice, and the availability of concessional paper should be limited to meet the requirements of the student community (para 22.4.10).

(3) The present system of allocation of white printing paper for meeting the requirements of student community should be tightened, and the distribution system in respect of exercise books improved to avoid leakages (para 22.4.6).

(4) Regulatory measures on environmental pollution by the paper industry should be tightened up, and there should be stiff penalties for infringement of the regulations regarding effluent discharge (para 22.6.3).

(5) Government should give institutional and other support for the development of the handmade paper industry and also preferential treatment for Government purchase of such paper (para 22.8.1).

(6) There should be no control over newsprint import or allocation, and strict regulation of the use of NEPA Mills newsprint should also be done away with, NEPA Mills being allowed to compete in the market after imposition of an appropriate duty on imported newsprint (para 22.7.5).

22. Rubber (Chapter 23)

Findings

(a) The Rubber Act provides wide ranging powers of control, over all aspects of rubber, to the Rubber Board.

(b) In the past, rubber prices have been fixed but have generally not been effective.

(c) Over the past few years, rubber prices have fluctuated widely.

(d) Rubber has been exported over 1976-78 at a loss in order to prevent a slump in prices, requiring rubber to be now imported to prevent rubber prices from soaring to artificially high levels.

(e) A cess has been regularly collected from rubber users, but not fully used for the the development of rubber, leaving a large balance in the cess fund.

Recommendations

(1) A realistic support price should be announced for rubber, on the basis of independent studies by a body like the Agricultural Prices Commission or the BICP (para 23.9.3).

(2) The Rubber Board should enter the market, and purchase and sell rubber to stabilise the market (para 23.9.4).

(3) The Rubber Board should immediately set about to build up a buffer stock of rubber while the size of buffer stock to be gradually built up should be decided after expert study. On prima facie grounds, a buffer stock of around 2 months' requirement, or around 25000 tonnes of raw rubber, should be built up (para 23.9.4).

(4) The interest cost of holding an inventory of this size would be a little more than half of the money collected annually under the rubber cess, and the financing of the buffer stock of rubber would be a legitimate charge on the rubber cess (para 23.9.4).

(5) Regulation of prices of rubber should be exercised effectively, without a formal control in the above manner, so as to assist the sustained growth of rubber plantations as well as rubber using industries (para 23.9.3).

23. Gold (Chapter 24)

Findings

(a) Gold control, which was instituted partly to wean the country away from the gold habit and partly to prevent smuggling of gold into the country, has not subserved either of the two objectives for which it had been instituted.

(b) Amendment to gold control made in September, 1963 provided loopholes for, and later, since 1966, permitted the fabrication of gold jewellery, which defeated the first objective of gold control indicated earlier.

(c) Smuggling of gold into the country has continued unabated, there being strong evidence to presume that the current rate of smuggled gold import into India is at least 50 tonnes per annum, if not more, other estimates placing the quantum of gold smuggling at an annual rate of upto 100 tonnes per annum, which would indicate that the second objective of gold control has similarly not been achieved.

(d) At the present international price of gold, the value of smuggled gold into the country would involve a minimum annual foreign exchange outgo of Rs. 300 crores.

(e) Since the Indian price of gold is significantly higher, the savings drain in the economy arising only from smuggled gold would be even higher.

(f) The craze for gold and gold ornaments has been fanned by a number of other factors and circumstances, an important factor being the enormous increase in the international price of gold in the last 10 years, from $ 35 per ounce upto March 1968 to something like $ 238 per ounce by the end of March 1979.

(g) This phenomenal increase in the international price of gold has occurred partly because of the loss of confidence in reserve currencies and partly because of the search, on the part of liquid funds generated after the oil price hike of 1973, for a stable asset or store of value.

(h) One result of the above development has been that those who have held gold in the form of gold jewellery have gained through appreciation in the price of gold more than those who have held other assets which are productive, encouraging the speculative demand for gold as an asset over and above the normal demand for gold as jewellery and for other uses.

(i) Since import of gold has not been permitted since 1939, there has emerged over the years a difference between the international price of gold and the Indian price of gold, both of which have moved in more or less a parallel fashion.

Recommendations

(1) In the fixation of agricultural prices, due attention should be paid to price parities between competing crops (para 27. 2. 8).

(2) In order that a support price policy can succeed, an adequate buffer stock may be created so that stability of supply is assured (para 27. 2. 7).

(3) The support prices should be announced ahead of sowing and based on recommendations of an independent juridical high power technical body, and not based on political pressures and influence, and that for this purpose, the Government should, as a matter of convention, accept the recommendations of such technical authorities like the Agricultural Prices Commission and the Bureau of Industrial Costs and Prices (para 27. 2. 8).

(4) In fixing industrial prices, due note should be taken of replacement costs of capital and not merely of historical costs of capital (para 27. 3. 11).

(5) While this is necessary in order to expand industrial output, distributed profits should be regulated, and if necessary, a part of the price should be separately funded for replacement, modernisation and expansion (para 27. 3. 13).

(6) In fixing prices, there should be realistic assumption of capacity utilisation based on past averages of consumption and other cost norms; and there should be a suitable escalation clause to avoid problems arising from lags in price fixation based on historical costs of production (para 27. 3. 12).

(7) The price control should be avoided as far as possible and where resorted to, should be combined with a package of measures calculated to increase supply in the long run (para 27. 3. 15).

27. Distribution Control and Buffer Stocks (Chapter 28)

Findings

(a) Control over prices is meaningless without control over distribution.

(b) Proper distribution control cannot be achieved without an effective machinery for distribution.

(c) An effective public distribution has been unanimously recommended by all Chief Ministers, on the basis of which Government has already announced a new policy frame for public distribution.

(d) Such a frame has to start with proper supply management and end with effective monitoring.

(e) The maintenance of an adequate buffer stock of all essential items is essential in any rational policy of supply managment, so as to provide stability in the supply and prices of all essential items, both in the interest of the producers as well as in the interest of the consumers.

(j) The difference between the Indian price of gold and the international price of gold has been based partly on the cost of smuggling gold, and partly on the facility of foreign exchange payment for purchase of gold abroad for smuggling into India.

(k) The difference between the Indian and the international price of gold has of late widened: from approximately Rs.50 per 10 grams before 1968 to approximately Rs.90 per 10 grams between 1970 and 1975 to approximately Rs.180 per 10 grams over 1976 and 1977, and finally to Rs.280 per 10 grams in the last few months.

(l) The changes in the broad gap between Indian and international gold prices upto the third quarter of 1978 may be assumed to reflect, by and large, an increase in the cost of smuggling, though the recent sharp increase in the difference appears to reflect a speculative increase in the price of gold in India.

(m) One factor relevant in this connection is the ease with which the smuggling of gold can be financed which depends in turn on the extent to which the exchange rate of the rupee is realistic and export earnings as well as internal remittances tend to flow through normal banking channels or seek non-banking channels for funnelling these receipts.

(n) The gold auctions by the Reserve Bank of India during 1978 did not help to either reduce the price of gold within the country or to raise the resources expected and had to be abandoned after the auctioning of the total of around 13 tonnes of gold.

(o) The international trade in gold jewellery is mainly for jewellery of 9 to 14 carats, the emphasis being on latest fashions and hallmark of quality rather than on the gold content of the jewellery.

(p) To the extent that gold has been regularly smuggled into the country in spite of the controls imposed so far, the policy options are: (i) to permit the free import of gold (subject to an import duty calibrated to the cost of smuggling); (ii) to continue to put a blind eye to the problem of smuggling and to continue with present policies and only intensify the attempt to check smuggling; or (iii) to attempt to change the gold habit both for purposes of making of gold ornaments as well as a form of asset in which to hold savings.

Recommendations

(1) Gold control should be amended and the manufacture of gold ornaments above 18 carats purity should be totally prohibited (para 24.5.9).

(2) To meet the demand for 18-carat gold, Government should import the required quantum of gold, refine it through the mints and sell 18-carat gold bars freely (para 24.5.10).

(3) Free import of simple tools and equipment should be permitted to jewellers in order to facilitate working with even lower carat gold e.g. of 14 carats (para 24.7.2).

(4) After a few years, when goldsmiths have become attuned to using equipment for production of jewellery with lower gold content, there should be a reduction in the purity of gold to 14 carats for the making of jewellery (para 24.7.3).

(5) Suitable agencies of the Government like the Hindustan Diamond Trading Company Ltd. and the HHEC should be asked to organise the production of gold and studded jewellery for export by importing modern designs, seeking export orders for the jewellery so produced, by exhibiting them abroad through the HDTC and HHEC, and organising production to meet the specific requirements of the international market, by supplying the goldsmiths with simple tools and equipment required to fabricate jewellery with lower gold content (para 24.6.4).

(6) The Import Replenishment scheme for export of gold jewellery in its present form should be given up (para 24.6.4).

(7) Better facilities to attract the savings of poorer people should be devised in order to get the people move away from savings in the form of gold ornaments; such savings should be so devised as to be simple, productive - that is carry an attractive rate of interest - and yet be capable of easy encashment, without difficulty in time of need (para 24.7.11).

(8) "Gold bonds" may be revived but with suitable modifications, with indexation to allow for price changes for gold ornaments of higher than 18 carat gold content - subject to a value ceiling - in order to break the gold habit as a store of value in the country (para 24.7.10).

(9) Import of any special tools of trade required by jewellers should be subsidised (para 24.6.4).

(10) There is need to provide people with a reliable, profitable semi-liquid form of asset which can replace gold. One way would be to allow people to sell gold to the mints (instead of the pawnbrokers as at present) or other nominated agencies (para 24.7.4).

24. Decentralised Sector (Chapter 25)

Findings

(a) There is both urgent need and good economic justification for the promotion of employment oriented production, distribution and construction methods, which may call for protection and subsidy to this sector.

(b) In the background of the present divergence between real and market rates of interest and wages and other disadvantages of the decentralised sector, and the social subsidy enjoyed today by large scale industry in urban conglomerates, some part of the present support or subsidy to the decentralised sector is no more than the social subsidy at present enjoyed by large scale urban industry.

(c) The decentralised sector should be defined to cover not only decentralised production but also decentralised distribution and construction activity.

(d) Various criteria can be drawn up for identifying specific activities for which decentralised economic activity would give relatively the highest output, so as to maximise both employment and output.

(e) The decentralised sector faces a number of problems: (i) unfair competition from organised industry, (ii) inadequate supply of raw materials at high prices, (iii) inadequate supply of finance, (iv) lack of marketing facilities, etc..

(f) The present organisational support for the decentralised sector suffers from a number of inadequacies.

Recommendations

(1) Although there is a very large list of industries numbering 807 reserved for "small scale industries" (which are "modern small scale industries" quite different from village industries), there is a need for a separate list of reserved items for the decentralised sector especially for artisans and cottage industry type workers (para 25.5.1).

(2) To begin with, there is a case for reserving the following types of production activities for the decentralised sector:-

(a) all dhotis and sarees with border (of any kind or width);

(b) all carpet weaving, shawls, and woollen blankets;

(c) certain types of leather and PVC products (including the stitching of shoes from uppers and sole leather). This policy has to be integrated with the upgrading of tanning techniques, setting up of common facility centres, training, and in fact, some sort of "production cooperation" between the organised and decentralised sectors;

(d) soap, on the basis of supply of "fatty acids" from the organised sector;

(e) matches, on the basis of supply of potassium chlorate from the organised sector (para 25.5.5).

(3) For adequate supply of raw materials for the decentralised sector, the Government should ensure that-

(a) a part of the supply of raw materials is available for the decentralised sector, compulsively if necessary;

(b) the cost of these raw materials to the decentralised sector is no higher than to the mill sector through a subsidy, if necessary;

(c) the quality of raw materials supplied to the decentralised sector is not inferior to the quality of raw materials available to the organised sector, through the imposition of quality control, laying down of specifications and standards, etc. (para 25.3.5).

(4) State or district or local level institutions of repute should stand guarantee for the production and marketing of the products of the decentralised sector, so that banking funds can flow without any difficulty for the development of this sector (para 25.3.7).

(5) There should also be a separate list for government and public sector purchase exclusively from cottage and village industries (para 25.5.2).

(6) In order to give positive encouragement to the decentralised sector, at least 20 per cent incremental credit to be given by banks should be reserved for the decentralised sector (para 25.5.2).

(7) Institutions which can act as a link between the artisans and the financial institutions purveying credit, should be organised (para 25.3.10).

(8) Assistance given under various schemes of integrated rural development (like the MFAL scheme) should be extended for all types of production in the decentralised sector, and not merely for two of the 23 industries falling under the purview of the KVIC (para 25.3.8).

(9) In order to protect employment, effort should be made to integrate private retail distribution into the scheme for public distribution of essential commodities to be introduced; and suitable restraints should be introduced in order to ensure the use of labour intensive methods in construction activity (para 25.2.2).

25. Credit Control (Chapter 26)

Findings

(a) Insofar as the DRI scheme is concerned, the subsidy involved in the grant of concessional finance has in practice set a limit to the total quantum of credit made available to the small artisans and the tiny producers.

(b) Selective credit control has not been able to prevent speculative stock holding in a situation of shortages because of the existence of non-banking funds.

(c) The term lending institutions cannot, as they are themselves not prepared to, replace the licensing system which accords priority for industrial investment.

(d) The grant of concessional finance to large and medium scale industry by term lending institutions can militate against the objective of employment-orientation.

(e) There is a paucity of institutions which can act as a bridge between the lending institutions and the small producer, in particular the small agriculturist and the cottage industry artisan.

Recommendations

(1) Rather than give only a small part of the requirements of funds required by the small producer at a concessional rate of interest, credit should be made available in adequate volume and with speed to the small producers, at reasonable commercial interest rates at which funds are available to the organised sector (paras 26.3.5 and 26.3.6).

(2) In order to keep up pressure on the lending authorities to extend credit to the target group, a minimum of 20 per cent of the additional credit granted should be deployd to the decentralised sector (para 26.3.7).

(3) Although selective credit control cannot replace direct physical control over stocks in a situation of scarcity, it should nonetheless be used discriminatingly and carefully to ensure that supply of credit is available in a manner calculated to meet the genuine requirements of trade as may be necessary (para 26.2.9).

(4) In order to ensure that industrial licensing is able to direct investment to priority and preferred sectors, there should be greater interaction between the policy makers and the financial institutions, and the latter should be represented on the Licensing Committee (para 26.4.10).

(5) Concessions on capital for large scale industry should be given only with very great circumspection and care, so that this policy does not militate against labour intensive forms of production (para 26.4.11).

(6) There should be a build-up or strengthening of institutions which can act as a bridge between the banks and the small borrowers, so that the requisite volume of capital can be made available to the really small producer (para 26.4.3).

(7) After providing clear guidelines in regard to purposes for which credit may be given, Reserve Bank approval of loans by nationalised banks to accounts of more than Rs. 2 crores each may be dispensed with, and the nationalised banks should be asked to report regularly as to the status of these large accounts to the RBI (para 26.4.5).

26. Price Control (Chapter 27)

Findings

(a) The issues that arise in regard to agricultural prices and prices of industrial products are somewhat different.

(b) With agricultural products, the control over prices has not succeeded in the past, and lately the focus has shifted to the determination of minimum support prices so as to assure a reasonable price to the grower.

(c) In agriculture, the management of supply is a function of the necessary inputs for increasing productivity, of rainfall, and also of relative prices of competing crops.

(d) For industrial prices the management of supply is partly a function of plan priorities and plan investments, partly a matter of private investment which in turn depends on restraints and other conditions for private investment and also on the pricing policy for industrial products.

(e) In the past, the fixation of industrial prices has suffered from diverse lacunae with the result that the supply of most essential consumer goods, the price of which has generally been regulated, has persistently fallen short of demand.

(f) Different States have adopted different, and additional, schemes for meeting the requirements of the vulnerable sections of the population.

(g) One of the difficulties of the public distribution system in the past has been the narrow coverage of items sold from ration shops.

(h) The cost of public distribution has been somewhat higher than the cost of private distribution partly because of the above, and partly because of the higher wage, rates and allowances for Government servants.

(i) Even in Kerala, where the public distribution system has worked well in the past, the system has been running rather thin after the lifting of restrictions on movement control.

Recommendations

(1) The adequacy of supply of essential commodities should be ensured through proper supply management and through operation of buffer stocks and through well planned imports where necessary. This would be an essential pre-requisite to the success of an efficient distribution system (para 28.4.1).

(2) This should be buttressed by adequate storage capacity in far-flung and hilly areas to ensure adequate supply of essential commodities throughout the country and throughout the year (para 28.4.10).

(3) Adequate buffer stock should be built up, based on the degree of fluctuation in the availability of different products and the degree of stability and protection from fluctuations in availability and prices that is required (para 28.4.4).

(4) The costs of buffer stock operations would be a legitimate charge on the consumers for certain items and on the taxpayer in general for certain others, as recommended variously in the two Chapters on Non-Ferrous Metals and Foodgrains respectively (para 28.4.4).

(5) An eclectic approach should be adopted and the private distribution system should be used wherever possible, to function under strict discipline (para 28.4.6).

(6) The co-operative form of management should be adopted wherever possible in order to reduce the cost of distribution (para 28.4.7).

(7) The public distribution system should be geared to move quickly into any item in which shortages appear suddenly, for which purpose the distribution system should be in a position to commandeer a reasonable part of the supply (para 28.4.8).

(8) The vulnerable sections of the population, especially those below the poverty line, should be subsidised through the public distribution system (para 28.4.1).

(9) The public distribution system should be made economically viable not only by reduction of the overhead costs but also by arranging for the supply of a wider variety of essential commodities than customary; however, it may not be possible to combine all items to be sold from the same shop (para 28.4.7)

(10) A proper system of monitoring of the public distribution system should be adopted, by organising committees of consumers and citizens at large (para 28.4.11).

(11) In order that the vulnerable sections of the population can be supplied essential commodities at subsidised rates, a special ration-card system should be devised so that the benefit of the subsidised supplies reaches only the target group (para 28.4.9).

28. Generation of Black Money (Chapter 29)

Findings

(a) The controls have been an important source of black money.

(b) Price control without an adequate machinery for distribution and speedy arrangement for increasing supplies is potentially a source of black money generation.

(c) Leakages in the distribution system are another potential source of black money.

(d) Significant generation of black money has been involved in cement and paper industries.

(e) Rent control is yet another source of black money generation.

(f) Harassment to the public and petty corruption stem from the large number of licences required by small shopkeepers and traders.

Recommendations

(1) To the extent possible, other alternative policies like buffer stock operations and fiscal policy should be used, and non-discretionary controls should be imposed (para 29.2.2).

(2) It would be desirable to have as small a list of restricted items involving individual discretion as may be possible (para 29.2.2).

(3) There should be suitable monitoring of the control administration as well as of the working of the controls (para 29.3.2).

(4) Controls should not be prolonged where leakages and the generation of black money cannot be prevented (para 29.3.2).

29. Implementation and Monitoring (Chapter 30)

Findings

(a) The basic requirement of monitoring of controls is an efficient data system in regard to which, numerous expert bodies have already made various recommendations.

(b) The efficacy of controls and the monitoring of controls are closely linked together and depend also on the number of points of controls, the possibility of leakage being directly linked to the number of points of control which need monitoring.

(c) In the matter of distribution control, the control system has to reach down to a very large area where a public distribution system is likely to be useful.

(d) At present consumers are not properly organised and the consumer movement is in its infancy.

(e) This also stems from the fact that the consumers who need protection also constitute the weakest sections of society.

(f) At present the chambers of commerce and industry in India do not adequately represent either manufacturing establishments or trading units.

(g) Existing chambers act primarily as grievance lobbies to make representations to Government and are doing little to regulate the conduct of their own members with the result that there is widespread distrust of the business community among consumers in general.

Recommendations

(1) On a national level, all controls and subsidies should be monitored by the Planning Commission in a monitoring unit to be set up, so that the adjustments required in plans and programmes as also in the operation of controls can take note of the problems thrown up by the functioning of the controls (para 30. 6. 2).

(2) The monitoring unit in the Planning Commission should function as a co-ordinating unit for monitoring (para 30. 6. 4).

(3) Similar monitoring of controls should be undertaken by State Planning Boards for the Central as also State level controls and subsidies are concerned. The actual working of controls implemented by the State Civil Supplies departments should be the special concern of State monitoring agencies (para 30. 6. 3).

(4) The monitoring of controls and subsidies should be devised on a multi-level pattern, the primary monitoring agency being the control authority (para 30. 6. 1).

(5) The price and distribution controls can be monitored by developing a vibrant consumer movement which should be encouraged and funded by Government (para 30. 7. 3).

(6) The monitoring of price and distribution controls could be made easier and made more efficient by organising citizens councils in each area, and to begin with they could be asked to oversee the functioning and working of fair price shops (para 30. 7. 3).

(7) There should be organised effort on the part of the Government to educate the public and to give wide publicity in regard to the actual entitlements, so that consumers councils can oversee the functioning of the distribution system (para 30. 7. 3).

(8) The chambers of commerce and industry should undertake voluntary regulation of the conduct of their members (para 30. 8. 7).

(9) A beginning could be made by attempting, in respect of specified industries, crafts and trade that membership of a chamber should be compulsory for all those who participate in that profession, such chambers being organised at the local level with at least one chamber in each district and a city and these chambers should be required to draw up a code of conduct which they would be required to enforce on all members; they should also be vested with powers to deregister errant members. (paras 30.8.7 and 30.8.8).

(10) If the experiment succeeds, the coverage of such compulsory membership could be extended to other industries, in crafts and trade so as to ensure voluntary regulation and the observance of a code of conduct by all members (para 30. 8. 8).

Chapter 1

INTRODUCTION

1.1 Setting up of the Committee

1.1.1 This Committee was constituted by Government in terms of the Ministry of Finance (Department of Economic Affairs) Resolution No. F.23011/2/78-Admn.I dated the 15th February, 1978, which reads as follows:-

> "The Government have decided to set up a Committee to evaluate and review the system of controls on prices, production, distribution, licences and imports and to examine the manner in which they have been actually operated and whether or not the objectives sought to be achieved have actually been achieved. The Committee will be composed of the following:-
>
> | | | |
> |---|---|---|
> | 1. Shri Vadilal Dagli | ... | Chairman |
> | 2. Shri Era Sezhiyan | ... | Member |
> | 3. Shri Bagaram Tulpule | ... | Member |
> | 4. Shri L.C. Jain | ... | Member |
> | 5. Shri Sanjoy Sen | ... | Member |
>
> The Committee will have a Member Secretary who will be appointed shortly.
>
> "2. The Committee will have the following terms of reference:-
>
> 1. Has the system of controls on prices, production, distribution, licences and imports been an effective instrument for national planning and guidance of the national economy?
> 2. What has been the experience in the past of the operation and management of all types of controls and have the pre-determined objectives actually been realised?
> 3. In which areas of the economy have the controls been successful and hence deserve continuance with or without modification?
> 4. In which areas have the controls been ineffective or have since become irrelevant and hence deserve to be removed?
> 5. In what manner is the system of controls connected to the system of subsidisation in the national economy? Are such subsidies justifiable and will it be possible to moderate or eliminate the system of subsidisation by suitable modifications in the system of controls?
>
> "3. The Committee will evolve its own procedure for its work. The Economic Division of the Ministry of Finance (Department of Economic Affairs) will provide the Secretariat to the Committee.

"4. The Committee will make its recommendations to the Government of India within a period of six months."

1.1.2 Until the appointment of the Member-Secretary, Shri W.S. Tambe, Joint Secretary, Department of Economic Affairs, carried on the work of the Committee, in addition to his own duties and responsibilities. Dr. A.K. Ghosh took over as Member-Secretary of the Committee on the 10th April, 1978. The Committee is grateful for the start given by Shri Tambe to the work of the Committee, by setting in motion the enquiries that led to the receipt of the voluminous information and evidence, later.

1.1.3 The Cabinet Secretariat had on 3rd April, 1978 informed the Ministry of Finance that "the Cabinet Committee on Economic Affairs, when it considered the Ministry of Industry's paper on the (G.V.Ramakrishna) Study Group on Industrial Regulations and Procedures, directed that, after consulting the States, the terms of reference of the Dagli Committee should be expanded to enable it to look at the clearances needed under the State Government rules and regulations". This was considered by the Committee at its meeting on the 14th April, 1978. It was felt that the terms of reference of the Committee were such as would necessarily require some examination of the entire gamut of controls - including those exercised by State Governments - but that this did not call for a formal amendment of the terms of reference of the Committee, and also that, given the enormity of the problem and the time constraint, such a study could be attempted selectively, if and where some States wanted such a study to be undertaken. In any event, the Committee was to review certain controls (like rent control) which fall within the purview of the States.

1.1.4 Separately, the Finance Minister desired, and the Committee also decided, that it would be desirable to consult the State Governments, and to meet as many representatives of State Governments, chambers of commerce and industry, administrators, economic experts, trade union leaders, representatives of village industries and consumers, and senior citizens to ascertain their views, as may be possible.

1.2 Evidence collected by the Committee

1.2.1 The Committee held its first meeting on the 5th March, 1978 and decided against issue of any detailed questionnaire, as any formal questionnaire would tie down the respondents and prevent them from giving free and unfettered expression of their views. Also, the problems of different sectors are vastly different, and any one set of questions may not be appropriate for the entire gamut of the economy. It was therefore decided to elicit information on controls and subsidies from various Ministries/Departments of the Government of India, and from all State Governments. It was also decided to address research institutions and all associations and organisations representing producer, distributor and consumer interests. All the economic Ministries and Departments of the Government of India, all the State Governments, and Union Territories and a large number of research institutions, industry, commerce and trade associations and chambers were addressed by the Committee to seek their views on the subject of the Committee's enquiry. A selected number of corporate undertakings was also addressed to solicit their views in regard to certain specific controls applicable to industry. The Committee also addressed Indian Missions in some countries abroad in order to obtain information on the system of controls and subsidies that exists in these countries.

1.2.2 The task of collection of material from the concerned Ministries and Departments of the Government of India was facilitated by the appointment of one senior officer from each Department to act as a liaison officer (list at Annex 1.1), for the supply of all relevant factual material. The Committee has found this procedure to have been most useful, in that the basic factual material on all extant controls and subsidies relating to the Government of India could be compiled without too much difficulty or delay.

1.2.3 The response from the numerous authorities/institutions/organisations addressed has been encouraging. Almost all the States have forwarded memoranda containing their views, and all States have assisted the Committee by furnishing data on the extant control notifications issued by them under the Essential Commodities Act. All concerned Central Government Ministries/Departments have sent voluminous material on controls pertaining to their administrative responsibility, and also further background material and other relevant information. A large number of chambers of commerce and industry have responded to the Committee's circular, soliciting information and views on the functioning of controls. Annex 1.2 gives the particulars of the memoranda received by the Committee from State Governments. Annex 1.3 gives a list of the memoranda received from chambers of commerce and industry and other specialised industry and trade associations. Annex 1.4 gives a list of memoranda submitted by others including individuals.

1.2.4 After studying the memoranda received, the Committee decided to visit Bombay, Calcutta, Bhubaneshwar, Delhi, Hyderabad and Madras to take evidence from all State Governments and interested private organisations in various regions. Subsequently, as a result of insistent desire of some of the State Governments, the Committee decided to visit some more State headquarters, namely, Ahmedabad, Trivandrum, Bangalore, Lucknow, Patna, Shillong, Gauhati, Chandigarh, Simla, Bhopal, Jaipur and Jammu. Annex 1.5 gives particulars of the oral evidence tendered to the Committee during its visits to various State headquarters.

1.2.5 At an early stage of its deliberations, the Committee met Planning Commission (on May 23, 1978) and a number of Secretaries of economic departments of the Government of India. The Committee had the benefit of discussions with the Chief Ministers and senior Cabinet members of the following State Governments:-

1. Assam
2. Bihar
3. Gujarat
4. Haryana
. Himachal Pradesh
6. Jammu & Kashmir
7. Karnataka
8. Kerala
9. Madhya Pradesh
10. Maharashtra
11. Meghalaya
12. Orissa
13. Punjab
14. Rajasthan
15. Tamil Nadu
16. Uttar Pradesh
17. West Bengal

A list of all State Government ministers who participated is given in Annex 1.6.

1.2.6 A list of other organisations like the Reserve Bank of India, the Indian Banks Association, the term lending financial institutions and eminent economists and experts interviewed by the Committee may be seen at Annex 1.7.

1.3 Work of the Committee

1.3.1 The Committee had the benefit of some studies by certain organisations, specially prepared for it. These are –

(1)	Reserve Bank of India, Bombay	– (i) Relationship between price fixation and production in Steel, Coal, Cement and Paper (ii) Selective Credit Controls
(2)	ICICI, Bombay	– (i) Synthetic Fibres Industry (ii) Cement Industry (iii) Paper Industry (iv) Impact of Licensing Polices and Controls on the Industrial Sector (v) Impact of Price and Distribution Controls on the Sugar Industry
(3)	Bank of India, Bombay	– (i) Cement Industry (ii) Paper Industry
(4)	State Bank of India, Bombay	– Jute Industry
(5)	Khoj Parishad, Bombay	– Black money generation in Cement and Paper
(6)	Sardar Patel Centre of Socio-Economic Studies, Madras	– Study on Controls and Subsidies with reference to Handloom, Silk, Coir and Khadi & Village Industries in Tamil Nadu and Kerala
(7)	Centre for Development Studies, Kerala (prepared by C.P. Chandra Sekhar and Mridul Eapen)	– Multi-Fibre Policy - A study of its implications for the Cotton Textile Industry

1.3.2 A consultancy assignment on a study of the actual working of the control system in the paper, cement, vegetable oils and vanaspati industries, with suggestions for a generalised model for the monitoring of controls, was entrusted to the Administrative Staff College of India, Hyderabad. The Committee also utilised the services of special Consultants - Shri A.G.V. Subramaniam and Dr. A.V. Desai - for specialised studies and analyses. Research papers were also prepared for the Committee by individual experts - Shri Subhas Sarker of the Commerce Research Bureau, Bombay; Dr. Mahfooz Ahmed, Dr. Amaresh Bagchi and Shri Narhari Rao of the Ministry of Finance (Department of Economic Affairs); Shri H.K. Raina of the MMTC and Shri P.C. Jain of the Ministry of Industry.

1.3.3 The task allotted to the Committee involved wide ranging and quick study. At an initial stage of its work, the Committee got a list of extant economic legislation in India compiled, and proceeded to select economic sectors on which to focus attention for a study of control legislation thereon. The Committee decided at an early stage not to duplicate the work of three other independent committees which had only recently reported, or been only recently appointed, namely, the Hathi Committee on Drugs, the

Justice Sachar Committee on the Company Law and the MRTP Act, and the Pande Committee on Road Transport. The Committee felt that in any case, it could not but make a sample study, since a complete study of all controls in the Indian economy would necessarily take more time than this Committee could devote.

1.3.4 For the above reason, the Committee would like to clarify that though its study is perhaps the first comprehensive enquiry into the system of controls - covering the entire gamut of the Indian economy - nevertheless, its study can at best be deemed to be a beginning of the study of all the ramifications of all the controls and subsidies in the Indian economy. The Committee hopes that its own study would be the first of a succession of studies, on each of the major controls in the Indian economy, and more particularly, the entire gamut of controls ranging from Central level to State and even local level controls in each area.

1.3.5 The Committee would like to note that since the report of Commodity Controls Committee 1/ in 1953, there has been no comprehensive review of the maze of controls which has grown over the years, in the Indian economic system.

1.3.6 Even though the Committee has had to leave out several important areas of control, e.g. on road transport - which are vital to the economy - nonetheless, the Committee has covered in its study control over sectors which account for 66 per cent of the net national output (Annex 1.8).

1.3.7 In selecting the sectors relevant for study, the Committee had four criteria before it:

(a) the selected sectors should provide mass consumption goods/services;

(b) the selected sectors should provide essential inputs for the further development of the economy;

(c) the selected sectors should cover items of importance for the entire country; and

(d) the selected sectors should cover the problem of employment and income in the decentralised sector.

1.3.8 In terms of the above criteria, the Committee decided to include in its study - apart from the major general controls and major commodities selected - an item like rubber, as of great importance to one State.

1.4 Meetings of the Committee

1.4.1 According to the Resolution issued by the Government of India on the 15th February, 1978, the Committee was required to make its recommendations to the Government within a period of 6 months. However, the Committee could not start functioning effectively for quite some time. Office accommodation for the secretariat of the Committee was available for occupation only by early July, 1978. The Member-Secretary had to hold concurrent charge of his previous post (as

1/ Government of India, Ministry of Commerce and Industry: Report of the Commodity Controls Committee, 1953.

Additional Secretary, Department of Mines) till the 26th August, 1978. In effect, the secretariat of the Committee could start functioning effectively only from July, 1978, when the office accommodation was ready and staff could be hired and housed. As already indicated, the Committee was required to visit almost all the States for evidence, but its programme was interrupted by the devastating floods that hit some States from July to September 1978, and two major States had to request postponement of the visit of the Committee only for that reason, as the Chief Ministers had to be suddenly called away to visit the flood hit areas. Initially, the Committee had compiled information on extant controls as of the 31st October, 1978. However, after the delayed submission of the report became inescapable, the Committee decided to update the information - at least in respect of Central Government controls - upto the 31st March, 1979. For this reason, the list of extant State Government notifications under the Essential Commodities Act remains valid as of 31st October, 1978, while all Central controls have been updated, and the system examined as of March 31, 1979. The term of the Committee was, therefore, extended finally upto 15th May, 1979.

1.4.2 The Committee held - in addition to the meetings devoted to seeking evidence or meeting outside bodies and experts - a total of 34 meetings to plan out its work, consider the evidence tendered to it, examine the material collected and notes prepared by the experts and by the Secretariat, to reflect on the special studies prepared by consultants, and to prepare its report.

1.4.3 Before finalising its Report, the Committee had a final round of discussions with the Union Ministers and Secretaries in charge of various economic Ministries/ Departments. The Committee called on and had discussions with the following Union Ministers of economic Ministries over January - March 1979:-

> Shri P.Ramachandran (Minister of Energy); Shri Biju Patnaik (Minister of Steel & Mines); Shri H.M. Patel (then Minister of Finance); Shri Mohan Dharia (Minister of Commerce, Civil Supplies and Co-operation); Shri Bhanu Pratap Singh (Minister of State for Agriculture and Irrigation); Shri H.N. Bahuguna (Minister of Petroleum and Chemicals and Fertilisers); Shri Sikander Bakht (Miniuter of Works & Housing); Shri George Fernandes (Minister of Industry); and Shri Charan Singh (Deputy Prime Minister and Minister of Finance).

1.5 Plan of Report

1.5.1 The Report of the Committee is in four parts. The first has four chapters: Introduction; History of Controls and Subsidies; Statutory Sanction; and Approach of the Committee. This part of the report gives the general background of the subject, as also the framework of the study. The second part on "General Controls and Subsidies" contains seven chapters: Industrial Approvals; Mining Activity; Essential Commodities; Import and Export; Exchange Control; Housing and Construction Activity; and Subsidies. This part deals with controls (and subsidies) affecting more than one commodity or sector. The third part covers specific commodities/sectors and contains fourteen chapters: Foodgrains; Edible Oils and Vanaspati; Sugar; Textiles; Jute; Fertilisers and Pesticides; Coal; Steel; Non-ferrous Metals; Cement; Paper and Newsprint; Rubber; Gold; and Decentralised Sector. The selection of these commodities/sectors has been based on the criteria indicated earlier in para 1.3.7, so that in the sample study

conducted by the Committee, all important consumer and intermediate items get covered, together with the decentralised sector which is the focus of attention of the policy maker today. The final part deals with "General Issues and Alternatives" and has five chapters: Credit Control; Price Control; Distribution Control and Buffer Stocks; Generation of Black Money; and Implementation and Monitoring. A summary of findings and recommendations of the Committee has been given - at the beginning of the report, for convenience.

1.6 Acknowledgements

1.6.1 The Committee would like to thank all concerned in the Ministry of Finance for having extended every assistance required by it. The Committee is grateful to the Ministry of Works & Housing for having provided it with the accommodation which made it possible for the Committee to commence its studies and enquiries. The Committee would like to express its deep appreciation and grateful thanks to all State Governments, who have shown the Committee gentle forbearance and patience in answering repeated enquiries and questions on different issues from time to time. The Committee is especially grateful to the Chief Ministers and senior members of State Governments who have generously given their time and attention to the Committee. To the numerous chambers of commerce and industry, and associations and organisations of specific industries and trading interests, who have similarly taken the trouble to submit detailed memoranda and factual and other material, the Committee would like to convey its appreciation and thanks. The Committee is grateful to the numerous experts, economists, representatives of trade unions and consumer organisations, and senior citizens who have helped the Committee with their views and advice, not only verbally but also in writing. It would be physically impossible to name them all, and the Committee would therefore refrain from naming any single individual. The Committee would like to thank all organisations and individual experts who have assisted the Committee with written memoranda, and with verbal evidence tendered to the Committee.

1.6.2 The Committee is grateful to all the organisations, individual experts, and the consultants listed earlier, who have prepared various studies, notes and papers for its consideration. The Committee has greatly benefited from all these studies and research papers.

1.6.3 The Committee would wish to acknowledge with gratitude the assistance rendered to it by the different economic Ministries and Departments of the Government of India - and in particular the officers listed in Annex 1.1. Without their ready and unstinted support, the Committee's report could not have been prepared in such a short time in such detail.

1.6.4 The Committee would also like to place on record its deep appreciation of the work done by the secretariat of the Committee, in sifting and collating the voluminous material received by the Committee, and preparing notes for its consideration. In particular, the Committee would wish to place on record its appreciation of the excellent work of Shri O.P. Kohli, Officer on Special Duty, on whom fell the responsibility for organising the work of the entire office and who also assisted in preparing background notes and technical papers for the Committee. On the technical side, the Committee is grateful to Dr. V.R. Panchamukhi: and Dr. S.M.Shah, who were on deputation to the Committee from their parent organisations for varying periods; Shri M. L. Kapur who assisted the Committee till the end of its deliberations; and Shri K.P.V. Raghavan who was in charge of the Technical Section of the secretariat and who rendered signal service to the

Committee in not only collating the vast documentation required by the Committee but also in preparing notes on a number of areas of interest to it. The Committee would like to make special mention of Shri H.K. Raina of the MMTC who assisted the Committee in the final stages of its deliberations, and also in drafting the report of the Committee.

1.6.5 While the entire secretariat of the Committee had to work at a feverish pace, and while all members of the staff co-operated fully, the Committee would like to specially mention the contribution made by Sarvashri T.C. Nanda and A.P.Jain on the technical side, on whom fell the burden of, and Sarvashri C.L.Sharma and O.P.Guliani who helped in preparing an updated version of the extant control system pertaining to the sectors studied by the Committee, as of March 31, 1979. The Committee is grateful to Shri Jitendra Sanghvi of the Commerce Research Bureau who helped to check all statistical data used by the Committee. Shri S.K. Chopra rendered valuable service to the Committee as Private Secretary to the Chairman as also Shri C.P. Punwani, Private Secretary to the Member-Secretary. While many others also helped, the Committee is grateful to S/Shri Pradeep Kumar, A.C. Vadhera, R.C. Rattan, Suhas Kumar, A.Bhattacharya and H.L.Bhatti and Miss Sushma Sharma, on whom fell the burden of transcribing the report of the Committee into material ready for the press.

1.6.6 The Committee is also deeply appreciative of all those concerned in the Finance Ministry Budget Press who have helped to bring out the report in record time.

1.7 <u>Concluding remarks</u>

1.7.1 The Committee would like to reiterate at this juncture that the study undertaken by it may be regarded only as a beginning of a continuing study and evaluation of the complex subject of controls and subsidies. In the time available to the Committee, it has been able to undertake only a sample enquiry. Even in regard to the items studied, it has concentrated on certain general principles, on the "approach" to be adopted, on the safeguards to be introduced, in any consideration of controls or subsidies. The important point to emphasise in this connection is the monitoring of all controls and their periodic review. While detailed recommendations on specific controls and subsidies follow later, in the various chapters of the report, the main thrust of the Committee's endeavour is to evolve a new approach to the problem of controls and subsidies, to subserve the goals of national policy.

Chapter 2

HISTORY OF CONTROLS AND SUBSIDIES

2.1 Controls before the era of Planning

2.1.1 The present system of economic controls in India dates back to the Second World War. There have been isolated examples of 'controls' (as commonly understood) earlier also. Under the Cotton Cloth Act of 1918, the price, production and distribution of "standard cloth" was sought to be controlled. More significantly, the Sugar-cane Act of 1934 sought to control not only the price of sugar-cane (for sugar factories) but also the area of purchase of sugar-cane by different factories, and the then provincial Governments of U. P. and Bihar helped in informal price regulation by the Indian Sugar Mills Association by decreeing that only member factories could buy cane for factory crushing. There was official regulation of jute acreage from time to time in Bengal during the thirties of the present century, with a view to prevent over-production of raw jute. Under the Indian Tea Control Act, 1938, there was control, even prior to the war, over the export of tea, and control over extension of cultivation of tea in respect of the then British Indian Provinces. But controls in their present form and manner, as also in their pervasiveness and impact, commenced with the promulgation of the Defence of India Rules (under the Defence of India Act) on September 3, 1939 after the outbreak of the Second World War. Part XII of the Defence of India Rules related to control over essential supplies. Besides, there were controls on trading, on transport, shipping and aircraft, and there were a number of restrictions on the purchase of foreign exchange, restrictions on payments, etc. Rule 81 under the DIR made a blanket provision "for regulating or prohibiting the production, treatment, keeping, storage, movement, transport, distribution, disposal, acquisition, use or consumption of articles or things of any description whatsoever". Under Rule 84, Government assumed power "to prohibit or restrict the import or export of all goods or goods of any specified description from or to any specified person or class of persons".

2.1.2 In May 1940, import restrictions were imposed for the first time on the import of consumer goods and the control was later gradually extended to almost all commodities by the end of January 1942. The Iron and Steel (Control of Distribution) Order was issued in July 1941, to control the use of steel and to conserve it for the war effort.

2.1.3 Among foodgrains, wheat was the first important item brought under control. In order to keep prices within reasonable limits, to meet the requirement of large supplies of wheat for the British armed forces, the Government of India issued a Notification in December 1941, fixing the maximum wholesale prices for wheat in different markets of the country. The Foodgrains Control Order was promulgated in May, 1942 and provided for the issue of licences by the Provincial Governments to persons involved in the purchase, sale or storage for sale of foodgrains in wholesale quantity. The Order covered wheat and wheat products, rice in the husk (paddy), rice husked, maize, jowar, bajra, gram, barley, ragi, arhar, masur, kodra and korra. In December 1942, a full-fledged Food Department was constituted with a view to integrating all the activities regarding the purchase, distribution and movement of foodgrains on an all-India basis. Food rationing, which had been introduced to cover 13

cities in 1943 was extended to 103 cities and towns by February 1944, and 771 towns and larger rural areas by October 1946. Statutory control over wholesale prices of food-grains was imposed in early 1944.

2.1.4 In May 1943, control over capital issues was promuigated - later continued under the Capital Issues (Control) Act of 1947 - to avoid the misuse or misdirection of the limited funds available for investment.

2.1.5 The intensification of the war had its impact on the prices of industrial goods. In May 1943, the Government of India established the Department of Industries and Civil Supplies which introduced a comprehensive system of control over the production and distribution of cotton textiles. Under the Cotton Cloth and Yarn (Control) Order issued in June 1943, every phase of the activities of the cotton textile industry was brought under official control. By July, 1944, almost all the important commodities had been brought under one control or the other. In June 1945 when the war ended, the Textile Industry (Control of Production) Order was issued to ensure rationlisation and standardisation of cloth production by the textile mills. The Colliery Control Order was promulgated in December 1945, bringing under control the production of coal and disposal of coal stocks as well as the price of coal, the regulation of production and distribution being the responsibility of the newly created office of the Coal Commissioner. Price control on paper which was instituted in regard to Government purchases of paper in 1942, was extended over the production, distribution and price of paper, by a series of Orders issued over 1944/1945.

2.1.6 Some controls - even during this period - emanated not from the war shortages but in order to protect domestic producers. The Coffee Market Expansion Ordinance of 1940, and the Coffee Market Expansion Act of 1942 arose from the desire to save the coffee plantations from collapse arising from the loss of the coffee market in Europe and an unprecedented slump in coffee prices.

2.1.7 To safeguard against the lapse of the Defence of India Act and Rules, on October 1, 1946, the British Parliament passed the India (Central Government and Legislature) Act, 1946, empowering the Indian Legislature to legislate for controls in respect of certain commodities. This was followed by the Essential Supplies (Temporary Powers) Ordinance (followed by an Act) effective from October 1946 which provided for continuance of controls on specified commodities. The commodities covered initially were foodstuffs, cotton and woollen textiles, paper, petroleum and petroleum products, spare parts of mechanically propelled vehicles, coal, iron & steel, and mica. It was also provided that foodcrops would cover sugar-cane, foodstuffs would include edible oilseeds & oils, and paper would include newsprint. The Act was later amended to bring in more commodities under control.

2.1.8 The system of rationing of rice and wheat, which had been introduced in 1943 to cover major urban centres, had gradually been extended by August 1947 to cover areas with a population of 171 million. As would be seen later, such claims relate essentially to the theoretical coverage of the rationing system, indicating the population of areas in which fair price shops would have been opened; they do not indicate the number of people who actually benefited from the system.

2.1.9 In February 1946, the Government appointed a Commodities Prices Advisory Board to advise as to the formulation and administration of an appropriate and consistent price policy. In October, 1946, Government appointed a Planning Advisory

Board. The Commodities Prices Advisory Board had been arguing against the scrapping of controls and rationing in the context of the latent inflation than existing in the country, and the desire to usher in an era of planned development. Meanwhile, Mahatma Gandhi had been warning the country against the consequences of controls. To quote from his writings and statements at this juncture –

> "Control gives rise to fraud, suppression of truth, intensification of the black market and to artificial scarcity. Above all, it unmans the people and deprives them of initiative, it undoes the teaching of self-help they have been learning for a generation. It makes them spoon-fed." 1/

2.1.10 In 1947, the Government dissolved the Commodities Prices Advisory Board, and appointed the Foodgrains Policy Committee. The latter recommended the scrapping of rationing. On receipt of the report, the Government took a series of measures towards the end of 1947 to eliminate rationing gradually. Controls on cotton yarn and cloth as well as on raw cotton were also removed.

2.1.11 Meanwhile, the period between the end of the war and independence saw some liberalisation of imports. The new policy on import trade control introduced in July 1947 freed the import of food, capital goods, and certain raw materials required by industries as well as certain essential consumer goods. There was also a list of restricted items and a list of prohibited items, the banned list being made up of luxury items numbering over 200. The distinction between imports from the sterling area and the general currency area was by and large removed (except for a differential tariff). A noteworthy feature of the new import control system was a change-over to a system of quantum licensing, based on exchange ceilings allowed for the import of specific commodities. There was also a series of enactments to provide the legal basis for the continuance of the controls which were still on the anvil, the most important of these legislative enactments (during 1947) being the Foreign Exchange Regulation Act, the Imports and Exports (Control) Act, the Capital Issues (Continuance of Control) Act, the Railways (Transport of Goods) Act, the Control of Shipping Act, and the Rubber (Production and Marketing) Act.

2.1.12 The attempt at decontrol in 1947 was shortlived. Even towards the end of 1947, opinion had begun to change. There was deterioration in the balance of payments, and restrictions were also imposed by the British Government on the withdrawal of the sterling balances. Prices began to rise. The wholesale price index (base: year ended August 1939 = 100) which stood at 290.5 in January 1947 and no more than 294.2 in June 1947, increased to 314.2 by December 1947 and 340.7 by March 1948, and further to 382.2 by June 1948 - an increase of nearly 30 per cent over the year.

2.1.13 The rapidly deteriorating economic situation led to a re-thinking in regard to policy. Because of the alarming rise in prices after decontrol, the Government reimposed controls from July 1948 onwards, first on cotton cloth, then on raw cotton, and thereafter, on foodgrains. The ex-mill prices for cloth and yarn were fixed and floor and ceiling prices for raw cotton were announced. In September 1948, control over prices and procurement of major foodgrains was re-introduced. The surplus areas were cordoned off, and controls were again clamped on foodgrains prices, with resumption of procurement and distribution of foodgrains. In July 1949, raw cotton,

---

1/ Quoted in "Mahatma - Life of M.K. Gandhi", vol. 8, pp. 208-209; by Vithalbhai K. Jhaveri and D.G. Tendulkar, Bombay, January, 1954.

cottonseed and soft coke were brought under the ambit of the Essential Supplies Act. In September, 1949, the Government issued an Order freezing sugar stocks and banning the futures trading in sugar, so as to check rising sugar prices. Immediately after the devaluation of the rupee in September 1949, the Government announced a programme, covering control over the pattern of foreign trade, prevention of speculative price increases by legislative and administrative measures, and reduction in the retail prices of essential consumer goods.

2.2 Controls under Planning

2.2.1 The control system since around 1950 had two objectives: the longer term objective of channelling the resources of the economy in accordance with Plan priorities, to be hereafter called "promotional" controls; and the short term objective of achieving relative price stability in periods of acute imbalance between supply and demand, to be designated as "corrective" controls. Even though some controls have been deployed to achieve both objectives, long term control measures have been instituted primarily to achieve the first objective, while many controls imposed from time to time have been geared to meeting certain short term exigencies.

2.2.2 For the above reason, the history of controls over the last twenty eight years (five Plan periods plus three annual plan years), may be roughly divided into two broad periods, namely, from Independence - and more particularly from the initiation of planning in 1951 - until the devaluation of the rupee in June 1966; and thence until the end of 1978. Within this period, there are several sub-periods, arising from the unfolding of the economic situation, and the need for sharp adjustments in policies as well as in "corrective" controls. For the purposes of examination of controls in generally homogeneous sub-periods, the period since the fifties may be divided into the following broad periods :—

(i) The period between mid 1950 and mid 1957. This period could be further subdivided between (a) mid 1950 to mid 1953 when there were serious inflationary pressures in the economy, arising from price inflation abroad, and (b) mid 1953 to mid 1957 when there was relative ease in the matter of food supply, and the pressure of demand for imports had not yet sparked off a foreign exchange crisis.

(ii) The decade between mid 1957 and mid 1966, when following upon a crisis in the balance of payments, diverse control measures were instituted. The period could be further sub-divided into (a) mid 1957 to end 1962 when despite the foreign exchange crisis, there was a booming economy following increased investment; and (b) early 1963 to mid 1966 when there were two distinct trends: first, large scale PL 480 imports which instilled a degree of complacency as to foodgrains production; and secondly, inflationary trends arising from the large defence expenditures incurred, following the Chinese attack on the northern borders in October 1962, which led to pressure on the balance of payments and increasing complexities in the export/import system.

(iii) The years between the devaluation of the rupee and mid 1978. This period can be further sub-divided into four sub-periods, namely, (a) between the devaluation of the rupee in June 1966 and mid 1969

when 14 major commercial banks were nationalised, and Government had in its hands the Report of the Industrial Licensing Policy Inquiry Committee (ILPIC), both in July 1969. During this period, i.e. between devaluation of the rupee and mid 1969, many controls on industry were relaxed but the food situation required an intensification of controls despite accentuated food aid; (b) between July 1969 and the oil price hike of November 1973 when there was an accentuation of controls on industry as also a major shift in economic policy towards increased control over key sectors of the economy heralded by the nationalisation of 14 major commercial banks in July 1969, a reversal of liberal balance of payments policy and intensification of import substitution, coupled with experiments with relaxation of food controls but ending up with the take-over of the wholesale trade in wheat in April 1973; (c) between the end of 1973 and the end of 1975 when the sharp increase in oil prices led to further tightening of controls on balance of payments grounds, but with a somewhat mixed picture in regard to controls involving some relaxation of controls on industry and at the same time a wave of nationalisation of industries, of the take-over of sick units, and of increased canalisation of foreign trade, together with increased controls in the matter of movement and distribution of food-grains and agricultural raw materials; and finally, (d) early 1976 to 1978 when there has been a steady trend towards the relaxation of controls, both on the food front and on industrial products, following a general adequacy of supply in relation to effective demand and a comfortable situation on the foreign exchange front.

2.2.3 For the purposes of an overview of the unfolding of controls in the economy, controls are studied in the following paragraphs, in terms of controls over industry, encompassing investment controls, controls over production, controls over distribution and price, and over stock holding; controls over foodgrains and other agricultural products with special reference to controls over movement and prices as well as on distribution and stock holding; general controls affecting all sectors as for instance controls over export and import imposed for balance of payments reasons; controls instituted with multiple objectives of policy like the Company Law; and finally, various miscellaneous controls like gold control, control over urban property etc.

2.2.4 In what follows, the chronological history of all the controls instituted in respect of the above categories has not been elaborated. The attempt rather has been to indicate the broad nature and pattern of controls instituted from time to time, with a view to drawing lessons from past experience.

2.2.5 Since independence, the thrust of economic policy has been to direct the available resources to priority sectors and to control and regulate economic activity in line with certain stated objectives of policy. The Industrial Policy Resolution of 1948 laid down the future pattern of industrialisation in the country, with a number of key industries being reserved for the State. While legislation was introduced to give effect to this policy in 1949, the Industries (Development and Regulation) Act, seeking to direct investment through a licensing system was finally passed in 1951, and made effective from 1952. Meanwhile, the policy on foreign capital was enunciated in a Statement made in Parliament by Prime Minister Nehru in November 1949. A new Factories Act was passed in 1948 requiring registration of and regulating all factories

employing 10 or more workers and using power, or 20 or more workers without power. The Mines and Minerals (Regulation and Development) Act was passed in 1948, followed by Mineral Concession Rules issued thereunder in 1949, in order to regulate the grant of prospecting licences and mining leases, with an eye to conservation and economic exploitation of minerals. In 1949, the Drugs (Control) Ordinance was promulgated - to be replaced later by Drugs (Control) Act, 1950 to check any increase in drug prices. The Indian Mines Act was passed in 1952 to lay down working conditions, and safety requirements. These constituted only some of the major legislative enactments affecting investment and production.

2.2.6 The launching of the First Five Year Plan from April 1951 formalised the use of controls and the regulation of the economy for attaining the objectives of the Plan. The Industries (Development and Regulation) Act was the first major control of this nature, licensing being attuned to the changing objectives of policy in the light of the developing situation. The First Five Year Plan spelt out the philosophy and the Government policy in regard to controls, in the following words :-

> "To some extent, overall controls through fiscal, monetary and commercial policy can influence the allocation of resources, but physical controls are also necessary .... Controls on production and on movement and physical allocations to consumers become inescapable. Controls in a word are the means by which Government maintains a balance between various sectional interests.....
>
> "Most of the opposition to controls comes, however, from dissatisfaction with the working of particular controls. It must be recognised that controls ineffectively or inefficiently administered may do harm rather than good.... It is also vital to the success of controls to make the necessary adjustments in their working from time to time.... whatever changes are made must accord with the objectives in view......
>
> "The difficulties of administering an extensive system of controls in an economy organised by and large in small units cannot be underrated.... Effectiveness of controls.... can be ensured only through control at strategic points and through encouraging producers and consumers organisations...." 2/

2.3 Controls over Industry 1951-1966

2.3.1 The main instrument of control in regard to the direction of investment has been the Industries (Development and Regulation) Act of 1951 which came into force from May 1952, requiring a licence to be obtained for setting up a new large scale industrial undertaking, or for the expansion of an existing one, or for the manufacture of a new article. The exemption limits for licensing purposes have been modified from time to time. The original Act covered all investments of Rs. 25 lakhs or more in any one of the industries listed in a schedule attached to the Act. The purpose of the licensing mechanism was to regulate the creation of capacity in line with plan targets so as to avoid over-investment (and therefore waste of capital) in any industry; to introduce a better regional balance in the creation of industrial capacity; and to diversify and to broad base the ownership pattern and entrepreneurial activity in the industrial economy.

2/ Government of India, Planning Commission: "The First Five Year Plan", 1952, pp 42-43.

2.3.2 A major landmark in the evolution of industrial policy and controls over investment was the Industrial Policy Resolution, which stated that the industrial policy "must 3_/..be governed by....... principles and directions " given in the Directive Principles of State Policy, which "were given a more precise direction when Parliament accepted in December, 1954, the socialist pattern of society as the objective of social and economic policy. The Industrial Policy Resolution brought in, inter alia a three-fold classification of industries, namely, those reserved for the public sector, those where the public sector was to play an increasing role, and those open to the private sector. The Industrial Policy Resolution also emphasised the role of the co-operative sector, and of the growth of the small scale sector, in an attempt to bring about socialist pattern of society, in the framework of a "mixed economy". Industrial licensing policy has generally followed the framework of policy outlined in the Industrial Policy Resolution of 1956.

2.3.3 Numerous amendments to the IDR Act have been introduced over the years, and numerous changes made in the application of the industrial licensing policy since its inception in 1952. Apart from formal amendments to the Act, the scope and coverage of the licensing provisions of the Act have been partially stayed (or moderated) or intensified from time to time, by Government Notification, the latest exemptions from licensing provisions of the Act having been approved only very recently, following the report of an inter-Ministerial Committee. 4_/

2.3.4 From the early sixties, voices have been raised to state that the development plans as implemented by Government were leading to an accentuation of the inequalities in income and wealth. The Committee on Distribution of Income and Levels of Living 5/,which was set up under the Chairmanship of Prof. P. C. Mahalanobis in 1960 by the Planning Commission, reported in February 1964, and pointed to the increasing disparity in the distribution of income and wealth in the economy. The Monoplies Inquiry Commission Report 6/submitted to Government in October 1965, found that there had been a growth of monopolistic control over industry, as a result of the functioning of the industrial licensing system, and recommended separate legislation to control monopolies. Meanwhile, R. K. Hazari 7_/found that the licensing system had actually led to a disproportionate growth of the assets of a few Large Houses. The action taken on these proposals falls into a study of the next period, namely mid 1966 to end 1975.

2.3.5 As far as other controls - mainly of a "corrective" nature - on industrial products are concerned, the outbreak of the Korean war in June 1950, spurred a boom in prices of industrial raw materials, as a result of which measures to tighten price

---

3_/ Quoted from Industrial Policy Resolution dated 30th April, 1956.

4_/ Report of the Study Group on Industrial Regulations and Procedures, Ministry of Industry, February, 1978.

5_/ Government of India;Report of Committee on Distribution of Income and Levels of Living, 1964.

6_/ Government of India: Report of the Monopolies Inquiry Commission, 1966.

7_/ R. K. Hazari: The Corporate Private Sector: Concentration, Ownership and Control, 1966.

control were introduced, and the Essential Supplies (Temporary Powers) Act was amended to make the punishment in case of hoarding more severe. By a resolution of Parliament in August 1950, Government assumed powers to legislate in respect of two subjects falling in the State list, namely, trade and commerce; and production, supply and distribution of goods. In September 1950, the Supply and Prices of Goods Ordinance was promulgated (replaced by an Act in December, 1950) empowering the Government to fix maximum prices and the maximum quantities of certain commodities which could be sold or held. The items covered included both intermediate goods like non-ferrous metals, raw rubber, sulphur, caustic soda, and soda ash, and a number of consumer goods like bicycles, bicycle tyres and tubes, milk food and electric bulbs. In order to achieve a greater measure of success in regard to sugar control, Government brought within the purview of control the prices, production and distribution of gur and khandsari. Further, transactions in raw cotton and raw jute were regulated. The Cotton Control Order of September 1950, and the Raw Jute (Central Jute Board and Miscellaneous Provisions) Ordinance of December 1950 prohibited free purchase of cotton and jute respectively by the mills, to cover their requirements. In December 1950, Government took powers to levy export duties on commodities as and when necessary, to meet the situation arising from the Korean war boom.

2.3.6 That the policies were essentially short term, and intended to meet emergent situations, is seen from the fact that in December 1950, Government decided to abolish the statutory rationing of sugar. Controls on paper (both in regard to production and prices) were also withdrawn. The control over newsprint, withdrawn in 1949, was however re-instituted in early 1951.

2.3.7. The period upto the mid-sixties was marked by fairly free and easy industrial licensing, and led - in retrospect - to significant capacity being created for a wide variety of industries, in particular, many capital goods industries, though the system also did lead to a concentration of economic power in a few hands.

2.3.8 Insofar as other essential articles of consumption are concerned, following a slackening of demand and rapid decline in prices after the post Korean war boom was over, the control over cotton textiles under the Cotton Textiles (Control) Order of 1948 was relaxed. The percentage of coarse and medium cloth which mills were to be allowed to sell freely was raised and Government removed, in stages, the price control on most of the popular varieties of cloth, though control over yarn prices was maintained. The licensing system for cotton trading was simplified. Government also removed the control over the prices, movement, and distribution of sugar for the 1952-53 sugar season. Distribution control over certain categories of iron and steel was removed. While controls were also lifted from prices of a number of consumer goods, certain new measures of control were introduced. In December, 1952, the production of dhotis by mills was pegged in the interest of the handloom sector. This marked the beginning of the policy of reservation of certain fields of production for the decentralised sector in the interest of employment.

2.3.9 As far as commodity controls are concerned - in the matter of industrial products - a major power taken by Government - on the lines of the Essential Supplies (Temporary Powers) Ordinance issued in 1946 under the Defence of India Rules 1939 - was the Essential Commodities Act in 1955, when the validity of the Essential Supplies (Temporary powers) Act of 1946 finally expired. Originally, ten commodities and commodity groups were declared as "essential", to which an eleventh item was added

later. The Government assumed wide powers of control over the production, supply, distribution and stockholding of any item declared as essential, as also powers to declare any other item - not listed in the Act - as "essential", for purposes of control over any aspect indicated above.

2.3.10 With a view to encouraging decentralisation of industries and reducing disparities in levels of development between different regions, Government introduced in June 1956, uniform prices for all controlled varieties of steel as well as pig iron at all rail-head destinations in the country. The principle of pooled freight, and therefore, of equalisation of consumer prices (at rail-heads) throughout the country was also accepted for the cement industry, and uniform prices of cement were announed in July, 1956. This was a major new development in regard to supplies of basic raw materials leading to the equalisation of prices of these important inputs for industry throughout the country, and making for a new spurt of growth of such industries away from the centres of production of steel and cement. State trading was also introduced in the economy formally, with the constitution of the State Trading Corporation (STC) in May 1956. Although food import had, even earlier, been only permitted on Government account, the emergence of the STC broadened the area of trade by Governmental agencies. Around 1956-57, with increased Plan outlay and with growing imbalance between supply and demand, there started a general increase in prices of many essential items like coal, pig iron, steel and cement.

2.3.11 There was an accentuation of all controls in the early sixties, after the Chinese aggression in October 1962. At that time, priority was naturally given to the problem of controlling prices, because considerable funds had to be allocated to higher expenditure on defence while maintaining the tempo of development expenditures. Government adopted a series of measures and in particular, additional powers were taken to control the stocks of commodities and to regulate their distribution and prices.

2.3.12 The Essential Articles (Price Control) Order, 1963, was issued under the Defence of India Rules, with a view to curbing profiteering through unwarranted price increases. The specific items in which effort to control industrial product prices was to be concentrated were cotton textiles, woollen fabrics, drugs, and medicines. The stamping of prices on cloth was re-instituted, and selling margins at the wholesale and retail levels laid down. The production of coarse and medium varieties of cloth was to be stepped up; and it was laid down that at least 10 per cent of the output of mill cloth would be distributed through consumer stores and fair price shops, at reasonable prices. Powers were also taken under the Woollen Textiles (Production and Distribution Control) Order, 1962, to control the production of wool tops, woollen cloth and woollen yarn. Permission of the Textile Commissioner was also required for the acquisition or installation of any power operated spindle for the manufacture of woollen yarn.

2.3.13 Under the Essential Articles (Price Control) Order, maximum increases permissible in prices of certain consumer articles like kerosene, vanaspati, washing soap, and printing and writing paper were also laid down, the dealers being required to display their prices. Changes were also introduced in the matter of sugar prices and supplies and of cotton prices. In regard to the former, the Sugar (Control) Order of 1963 empowered the Centre not only to fix prices of sugar but also to fix quotas for the

States and to regulate movements of sugar. In regard to raw cotton, various restrictions were placed from October 1962, on the movement of cotton, on the purchases (and stocks) of cotton (above past consumption levels), and on forward trading in unginned cotton (kapas).

2.4 Controls over foodgrains and other agricultural items 1951-66

2.4.1 Rule 81(2) under the DIR (issued under the Defence of India Act of 1939), had given the Central Government wide powers to regulate the production, transport, storage and distribution of any item to be specified. As noted earlier, with a short break in 1947-48, these controls had continued, and these powers were widely used for controlling the movement and distribution of foodgrains as well as the purchase, sale and stocking of agricultural raw materials like cotton and jute.

2.4.2 The supply of food to the urban population at reasonable prices has been one of the major objectives of public policy, ever since the Second World War until today. As noted earlier, the decontrol of food (and other) prices in 1947 did not last long. In fact, the problem posed by partition of the country, and the famine conditions in 1951, led to a gradual enlargement of the public distribution system mainly in urban areas, and to increased import of foodgrains the sale of which to the States was subsidised by the Centre. In 1952, the Foodgrains (Licensing and Procurement) Order was passed; and "fair-price shops" were opened to prevent an undue rise in prices consequent on the relaxation of controls.

2.4.3 The year 1953-54 saw a lively debate in regard to food controls and rationing. Following a satisfactory monsoon, there was pressure for decontrol of foodgrains, while there was another school of thought in favour of price control, rationing and buffer stocking, as an instrument of planning. Eventually, prices were decontrolled, and there was considerable dehoarding by the farm population, leading to a decline in food prices (instead of an increase as had been feared earlier). The division of the country into "food zones" (for purposes of movement of wheat) was given up. However, the trend of prices was soon reversed, and food prices started rising from the middle of 1955. The Foodgrains Enquiry Committee recommended, in 1957, the need for price stabilisation, controls over trade of foodgrains and its "progressive socialisation". As a result, there was a return to controls over food supply, and four different types of control measures were adopted by Government from time to time, to keep food prices and distribution under control:

- (i) movement restrictions;
- (ii) price control;
- (iii) procurement, licensing and distribution control; and
- (iv) miscellaneous orders, e.g. regarding stocking, etc.

2.4.4 The controls were buttressed by large scale import of food on Government account, so as to meet the requirement of the public distribution system. The two measures promulgated in 1957 were (i) Inter-Zonal Wheat Movement Control Order and (ii) Rice (Southern Zone) Movement Control Order. The basic objectives

of movement control were -

(a) to segregate the surplus and the deficit zones with a view to help procurement operations in the surplus areas, and also to prevent some of the metropolitan areas (like Bombay and Calcutta) with a concentration of purchasing power from sucking away a disproportionate part of the marketable surplus, so as to ensure its equitable distribution; and

(b) to rationalise and minimise transport and avoid cross movement.

2.4.5 The control over foodgrains was relaxed significantly in the early sixties with the negotiation of a long term PL 480 Agreement with the USA towards the end of 1959 for the supply of 18 million tonnes of foodgrains over a period of years, for underwriting the Second Plan and for building up a buffer stock. The Agreement did succeed in holding back prices of wheat in particular, but in the context of a general increase in prices which commenced after the Chinese attack of October 1962, this also encouraged complacency in regard to long term food supplies, and also discouraged the production of food crops for market sales.

2.5 Control over trade and exchange 1951-66

2.5.1 The war-time controls on trade and exchange got gradually relaxed after 1947, though restrictions on imports had to be continued immediately after the war owing to the sterling balances of the country being blocked and subjected to controlled releases by the U.K. Government. In the early fifties, there was progressive relaxation of import control, though the control system was retained in order to use available foreign exchange resources for development.

2.5.2 The foreign exchange crisis in 1957-58, led to the abolition of the Open General Licence for import in July 1957, to a tightening of the import trade control policy, and the linking of imports to external credits as a result of tied aid. A scheme of compulsory exports was also introduced, commencing with sugar, in June 1958. It is from around this time that import control started being used extensively for the purpose of promoting import substitution.

2.5.3 One of the offshoots of this policy, tried particularly from 1959-60 until the devaluation of the rupee in June 1966, was the linking of import licensing to export performance. This policy developed in scope, content, and importance as the years passed. Import policy at this time assumed increasing tightness, and the critical foreign exchange position gave a direct stimulus to the policy of import substitution, the policy being to increasingly ban or restrict imports where indigenous substitutes were, or were claimed to be, available. Though there was a machinery for review of such claims by way of inter-departmental committees, as well as detailed scrutiny by the then 'Development Wing' (currently the Directorate General of Technical Development of the Ministry of Industry), the general atmosphere within the Government as well as in the country was to give the benefit of doubt to claimants of indigenous production capacity rather than to the users of imported components and other materials.

2.5.4 It was also around this time that the focus of attention on the work of the Tariff Commission - which had been constituted in 1952, in lieu of the Tariff Board set up in 1945 -

shifted gradually from studies and recommendations as to tariff protection required by industry, to cost/price enquiries directed at fixing appropriate ex-factory prices of industrial products. 8_/

2.5.5 Another major new development in the trade and exchange control system around this time arose from the growing importance of trade with rupee payment area countries commencing with the first Rupee Payments Agreement with the USSR in November, 1958 - and the use, increasingly, of tied import licensing (either tied to a specified bilateral credit or to purchase from countries with bilateral trade and payments agreements). The institution of tied licensing gradually deteriorated to a blanket earmarking of a part of the import entitlement of each "Actual User" for purchase of a certain part of his requirements from the rupee payment area countries, or linked to a specified credit tied to a donor country. The system developed in a somewhat arbitrary manner in that the percentage of import tied to different sources changed from time to time depending on the availability of credits without reference to whether the required imports were at all available in the country or countries specified in the import licences, or if available, at what price. For instance, for several years, a certain specified percentage of the value of import licences issued in favour of all small scale industries was tied to purchases from the rupee payment area countries, and another part was tied to purchases from the U.K. (under the U.K. credit). Thus apart from the detailed scrutiny of import applications imposed on the DGTD and other sponsoring authorities - in regard to the determination of the import entitlement of each manufacturer - there gradually evolved an arbitrary and <u>ad hoc</u> control in regard to the source of imports which began to affect the efficiency and cost of production of the industrial sector.

2.5.6 The step-up of the defence efforts commencing from 1963 - which made for an additional draft on the Central Government budget for 1963-64 of more than two per cent of the national product - raising the amount of net defence expenditure from Rs. 437 crores in 1962-63 to Rs. 729 crores in 1963-64, against a national income of Rs.14,700 crores in 1962-63, without any reduction in the level of development expenditure - led to the commencement of an inflationary spiral, and the emergence of foreign exchange difficulties. Indian exports started becoming increasingly uncompetitive in the world markets.

2.5.7 Exchange control was also significantly tightened during 1962-63, foreign travel being permitted only on the basis of exchange permits issued by the Reserve Bank of India from July 1962. In December 1962, restrictions on Indian nationals holding assets abroad were tightened.

2.5.8 Between 1962-63 and 1965-66, the balance of payments came under increasing strain as prices started moving up. In November 1965, the National Defence Remittance Scheme was introduced, with facility to convert part of inward remittances into import entitlements which were saleable. These developments made for new complexities in the system of import licensing, and transfer of import entitlements (against exports).

8_/This is only to highlight the shift in emphasis in the work of the Tariff Commission. The Tariff Commission had been entrusted with price enquiries even earlier; and continued to be entrusted with studies pertaining to the level of tariff justified on grounds of protection of infant industries. But with increasing quantitative import restrictions the role of tariffs as a protective mechanism was gradually eroded, and quantitative import restrictions became a major policy instrument for encouraging indigenous manufacture of industrial products. In 1973, the Tariff Commission was formally abolished and its tasks (of price enquiries) concentrated in the Bureau of Industrial Costs & Prices (BICP) set up in 1970.

2.5.9 A major landmark in the evolution of control policy was Gold Control initiated in January 1963 under the Defence of India Rules, which purported to ban the manufacture of new gold ornaments of higher than 14 carat gold content. The objectives of gold control were, first, to wean people away from the gold habit, and secondly, to check smuggling of gold. It was hoped that by this means, not only would the savings of the people get directed to more productive channels, but the smuggling of gold into the country which constituted a major drain on the balance of payments, would also be brought under control. Later in the year, in September 1963, an amendment was introduced to permit individual goldsmiths to manufacture gold ornaments of higher than 14 carat purity, only so long as they did so by melting down existing ornaments of higher than 14 carat gold content. It may be added that the substance of gold control was negated by the amendment introduced in September 1963.

2.6 Other controls upto the mid-sixties

2.6.1 The passing of the Indian Companies Act of 1956 was a major step purporting to control the activities and functioning of the corporate sector. The Act has been amended from time to time, but even in its original form, it was fairly comprehensive and laid down various norms governing the functioning of all companies, and required permission to be taken from the Company Law Board - which was set up in the Department of Company Affairs - in regard to matters such as the appointment of whole time Directors. The Government also acquired powers to investigate into the affairs of companies under certain circumstances, and to appoint Government directors in the interest of share holders, as and when necessary.

2.7 Controls over industry since the mid-sixties

2.7.1 With the devaluation of the rupee in June 1966, a number of changes were introduced in the control system. With a massive inflow of external assistance, import policy was significantly liberalised. There was also considerable liberalisation of industrial licensing policy, to permit fuller utilization of capacity already created. Several industries were "delicensed" - in the sense that the licensing requirements for creation of new capacity were kept in abeyance - and higher installed capacity in excess of licensed capacity was regularised. Facility of diversification was also freely given to a number of engineering industries. The import entitlements for actual users were significantly stepped up, so as to achieve higher industrial production. A policy of removal of price and distribution controls on industrial products was initiated, and in view of increases in the cost of production, price increases were allowed for a number of industries.

2.7.2 Control and regulation, however, kept coming back to meet the exigencies of the situation and to meet specific supply bottlenecks. Even though the item relates to an agricultural raw material, it is relevant here to note that in October/November 1966, a ban was imposed on the movement of indigenous cotton (except the exportable variety of short staple Bengali Deshi cotton). Mills were also ordered not to keep more than two months stocks of cotton at any time, and to observe, from December 1966, an extra holiday every week, in order to ensure adequate supply of cotton to keep all the mills going. It was also decided to requisition cotton for supplying mills unable to get it at ceiling prices. There was also partial decontrol of sugar prices - following a sharp reduction in the area and output of cane, and of cane available to sugar factories - and for the 1967-68 sugar year, it was announced that only 60 per cent of the mill output of sugar would be subject to price and distribution control. This was the beginning of the system of dual pricing of sugar: "levy" sugar to be sold at the direction of Government at a stipulated price and supplied through ration shops, with the balance of sugar being allowed to be sold freely by the factories at the market price.

2.7.3 The process of liberalisation of industrial controls continued for some items, and reversed for other, depending on the supply situation. In July, 1967, price and distribution controls on coal (except metallurgical coal required by the steel plants) were removed. In May 1968, paper prices were decontrolled. The percentage of cloth production outside the purview of control was raised from 60 to 75. On the other hand, control over the price and distribution of cement was reintroduced in January 1968. Prices of raw rubber were fixed on the basis of the recommendations of the Tariff Commission.

2.7.4 Meanwhile, as noted earlier in para 2.3.4, a debate had ensued after the report of the Monopolies Commission and the Hazari report in 1966, in regard to the need to control the growth of monopoly and the concentration of economic power in a few hands. The report of the Industrial Licensing Policy Inquiry Committee (ILPIC)9/ in July 1969 pointed to not only several defects of licensing policy, e.g. the pre-emption of capacity by Large Houses but also to the disproportionate amount of financial assistance from the public financial institutions which had gone to these Large Houses. Meanwhile, following the report of the Monopolies Commission, the Monopolies and Restrictive Trade Practices Act was passed in 1969; and following the ILPIC report, a number of restrictions were placed on the Large Houses, in industrial licensing policy announced in February 1970.

2.7.5 The early seventies saw a tightening of various control measures. Apart from the debate concerning monopolies, there was a definite shift in economic policy towards Government acquiring "commanding heights" in the economy. Reference has already been made to the nationalisation of 14 major commercial banks in the country. Following this, in 1972, the management of 214 coking coal mines and 12 coke oven plants was taken over by Government, and handed over to the newly constituted Bharat Coking Coal Company. This was followed by the take-over and subsequent nationalisation of all coal mines, including non coking coal mines. Meanwhile, as far as industrial licensing is concerned, the Industrial Licensing Policy Statement of February 1973 clarified policy in this regard, insofar as Large Houses and foreign firms were concerned, both these being allowed to participate in a limited range of heavy-investment or sophisticated industries, listed in Appendix I to the Policy Statement.

2.7.6 A major administrative innovation and simplification introduced at this time was the setting up of the Secretariat for Industrial Approvals (SIA) in November 1973, which sought:

(a) the centralisation of all approvals - for industrial licenses, capital goods import licences, and foreign collaboration terms under the SIA; and

(b) the laying down of strict time limits for different authorities for commenting on the applications, the process being made simultaneous rather than sequential.

2.7.7 Partly as a result of the above, and partly by increased exemptions granted in the matter of investment below a certain value for purposes of industrial licensing, delays in consideration of applications for industrial licences were significantly reduced.

2.7.8 Around this time, a large number of industries were also specifically reserved for development in the Small Scale Sector. Industrial licensing policy has

9/ Government of India: Report of the Industrial Licensing Policy Inquiry Committee, 1969.

continued to be governed since then substantially by the policies announced in February 1973, except that the emphasis on small scale, cottage and village industry production has been further accentuated in recent years, with an increasing number of industries being reserved for production in the decentralised sector.

2.7.9 Some of the control measures adopted during this period showed the lack of adequate preparation. For example, Government assumed control over the distribution of cotton yarn in February 1973, in order to ensure the availability of yarn at reasonable prices to handloom weavers, but the scheme had to be given up in a couple of months, in April 1973, as the scheme did not work.

2.8 Control over foodgrains since the mid-sixties

2.8.1 While there was a liberalisation of controls generally after the devaluation of the rupee in June 1966, the situation on the agricultural front was quite different. On the food front, the two successive drought years of 1965-66 and 1966-67 led to an intensification of controls. Substantial imports of wheat and other foodgrains were arranged against external aid, and foodgrains sold from the public distribution system reached a peak figure of 14 million tonnes in 1966, followed by 13 million tonnes in 1967. Movement restrictions were intensified, and statutory rationing as well as 'modified rationing' - i.e. distribution from fair price shops - was extended to cover an increasing segment of the population.

2.8.2 During 1967-68, with a favourable monsoon and increased foodgrains production, there was an impetus for the easing of restrictions on movements, which was extended to all coarse grains. The statutory price control on raw cotton, which had continued - except for a brief interruption in 1948 - since 1943, was lifted from September, 1967, and restrictions on purchases and stock holding by the mills as well as on movement of cotton were removed. Only a 'support price' for cotton was announced.

2.8.3 From 1968-69, there was a gradual change in the general approach and atmosphere in regard to controls. In respect of agricultural products, controls over movement got gradually relaxed with improved output, and emphasis was placed on procurement at more remunerative prices. The Agricultural Prices Commission had already been constituted in 1965, with a view to fixing minimum prices of agricultural products, and the focus of policy shifted gradually to the fixing of reasonable "support" prices for agricultural products, on the basis of the recommendations of the APC. The other plank of policy was the build-up of adequate buffer stocks such as would ensure stability of supplies and of prices. The Cotton Corporation of India and the Jute Corporation of India were constituted in September 1970 and April 1971 respectively, so as to build up a buffer stock of raw cotton and raw jute. It may be added, however, that as of writing, neither the Cotton Corporation nor the Jute Corporation had really achieved the objectives for which they were constituted.

2.8.4 The food situation continued to show fairly unstable conditions of supply. During 1970-71, the output of foodgrains reached what was then a record level of 108 million tonnes, and stocks of foodgrains with Government reached the then peak level of 8.6 million tonnes by July 1971. It is noteworthy that despite a policy decision in regard to the build-up of a buffer stock of foodgrains, Government found these food stocks to be burdensome. The Economic Survey for 1971-72 has this to say on the subject -

> " Currently there are a number of problems ancillary to the increased production of foodgrains in the country. The requirement of storage

> and transport have increased to such an extent that considerable strain is placed on the existing machinery. The other important aspect of increasing production of foodgrains impinges upon the monetary sector of the economy, in as much as the demand for funds for procurement operations has increased sharply........ Equally important is the consequence of the likely increase in the burden of food subsidy on the Union Government's budget."10/(Our emphasis)

2.8.5 The anticipations of a sustained increase in foodgrains output were belied, and the production of foodgrains declined to 105 million tonnes in 1971-72, and further, to 97 million tonnes in 1972-73. When food prices started rising towards the close of 1971-72, the Food Corporation of India started, from January 1972, open market sales of wheat from its stocks to contain prices. By mid 1972, however, this policy had to be abondoned. Prices kept increasing, and imports - at considerably higher than internal prices - had to be arranged in order to meet the requirements of the public distribution system. It was at this time that a decision was taken to take-over the wholesale trade in wheat, which was to become operative from the next rabi season, i.e. from April 1973. The Food Corporation of India, the State Co-operative Marketing Federations and the State Food and Civil Supplies Departments, were declared as the sole procurement agencies at the wholesale level. Inter-zonal movement of wheat was restricted, and the surplus and deficit wheat zones isolated, by the Wheat and Wheat Products (Movement Control) Order of 1973.

2.8.6 With the deterioration in the food supply situation in 1971-72 and more particularly in 1972-73, the machinery for rationing (both formal and informal) was strengthened. The number of fair price shops increased from 1.21 lakhs in December 1971 to 1.86 lakhs in December 1972.

2.8.7 The take-over of the wholesale trade in wheat never got off the ground, and Government monopoly in the procurement of rice, which had been talked of earlier, was not instituted. Monopoly procurement of wheat was abandoned for the 1974 rabi season.

2.9 Trade, exchanges and other controls since the mid-sixties

2.9.1 The policy of import liberalisation introduced in June, 1966 did not last very long, because import liberalisation failed to bring about any noticeable growth in overall industrial production, in the background of a recession in demand which stemmed from a steadily declining rate of public outlay under the Plan. From 1968-69 onwards an increasing number of products came under a total import ban in the interest of indigenous production. With domestic costs increasingly getting out of line as a result of this policy, the policy of subsidisation of exports again returned, the subsidies being given not only as cash compensatory support but also by way of import licences linked to export performance which carried a premium owing to their scarcity value, in a regime of tight import control.

2.9.2 The policy of import substitution in respect of manufactured articles was significantly intensified from around 1969 onwards, and a deliberate policy was adopted - in the matter of import licensing - in favour of a steady substitution of imported raw materials, components and spares by a reduction in the consumption of imported raw materials per unit of output. There was also a tightening up in the matter of the phased programme of indigenous manufacture to achieve

---

10/ Government of India Economic Survey, 1971-72, pp 2-3.

greater indigenous content in the shortest possible time. At the same time, there commenced more rigorous scrutiny of all Capital Goods import applications to ensure that plant and equipment manufactured within the country was not permitted to be imported. Simultaneously, exporting units were given priority in the matter of import licensing of raw materials, components and spares.

2.9.3 While the Minerals and Metals Trading Corporation - which had been separated from the STC in October 1963 - had already commenced exports of several minerals, the canalised export of specified minerals by the MMTC, was taken up as a matter of policy for the first time after October 1963. The policy of canalisation of import was to get increasingly intensified in the late sixties and early seventies. Numerous reasons were advanced for the increasing canalisation of imports, ranging from the desire to check over-invoicing of imports and under-invoicing of exports, to take advantage of the economies of bulk import, to make imported raw materials available more freely to small scale industries, and to use the bargaining capacity arising from large imports for promoting exports of difficult items. In retrospect, while bulk imports did help in securing foreign exchange savings and stability of supplies for certain bulkable items, there were also complaints of uneconomic purchases being made, as also of irregular supply at high prices even to small scale units. The extensive canalisation of the import of raw materials, at times of diverse qualities required by different producers (as for instance in the matter of alloy steel), as also the nominal canalisation of a number of items, like the exports of shoes, generally increased rather than reduced costs. Increasingly, the canalisation of foreign trade began to constitute a new form of control over industry and trade.

2.9.4 The rather extensive amendment of the Foreign Exchange Regulation Act (FERA) in June 1973 is another landmark in the regulation of the economy. The policy in regard to foreign investment had so far been governed by Prime Minister Nehru's statement on the subject, made in Parliament in November, 1949. Guidelines had, of course, been issued from time to time, indicating, in the main, the directions in which the import of technology - also under strict scrutiny from the angles of need and of availability of indigenous technology - was to be allowed. In terms of FERA, the policy on foreign investments underwent a notable change. All existing foreign companies were required to apply, under FERA, for permission to continue in business, and were to be freshly screened with reference to priorities and extent of foreign ownership. Under FERA, no foreign firm was to be allowed to have more than 74 per cent foreign equity. This extent of foreign equity was to be permitted only to companies in the Appendix I industries, as per the Industrial Licensing Policy Statement of February 1973; or those which were engaged in export of their output. Firms substantially of such category or in acknowledged fields of sophisticated technology, were permitted to keep 51 per cent foreign equity. All the rest were required to dilute to not less than 60 per cent Indian ownership. At the same time revised illustrative lists were circulated in regard to areas in which foreign technical knowhow and foreign collaboration were to be permitted, these lists having been drawn up with the assistance of the technical authorities, defining areas in which indigenous technological expertise had been generally deficient.

2.10 Controls since the mid-seventies

2.10.1 The scene on the 'controls' front has changed significantly since the mid-seventies. Before indicating the actual developments in regard to controls, the background of overall economic developments becomes relevant.

2.10.2 Three distinct developments in the mid-seventies had a profound effect on not only the control regime, but also on the popular approach to the control regime which had been in operation. These three developments were:

(a) The steep increase in all prices throughout the world, following the oil price hike of November 1973, resulted in a sharp escalation in the cost of new projects which, in a matter of a few years, increased several-fold. This raised a major problem in regard to pricing of products of capital intensive industries, where the burden of capital cost is a substantial part of the total product cost. At the same time, as world inflation increased at a rate faster than the rise of prices in India, Indian exports became increasingly more competitive in the world market.

(b) The favourable monsoons from 1975-76 onwards, together with the results of measures adopted earlier to increase food output - through increased input of water, fertilisers and high yeilding varieties of seeds - led to an unexpectedly large build-up in the buffer stock of foodgrains.

(c) The increasing inward remittances sent in by Indians going abroad, particularly for project and other construction work in the oil-rich countries of the Middle-East, made for a sudden easing of the balance of payments situation, and led to an increase in the foreign exchange reserves of the country from Rs.611 crores at the end of March 1975 to Rs.5082 crores at the end of January, 1979.

2.10.3 The other major development which occurred on the food front has been a fundamental change in the approach, from one of price control of agricultural products to one of price support and buffer stock operations. In respect of foodgrains, Government stocks suddenly increased from 4.9 million tonnes as of the end of June 1975 to 17.6 million tonnes at the end of June 1976. Currently, as of January 1979 food stocks are roughly of the same order, or marginally higher, and expected to increase substantially after 1979 rabi crop has been harvested. The control regime in foodgrains has therefore got readjusted to a regime of buffer stock operations. There has emerged, as a result, a debate on the size, extent, composition and location of buffer stocks; on who should pay for the cost of buffer stocking; and related issues. The off-take from the public distribution system has also declined, inspite of an increase in the theoretical "coverage" of the system. Apart from Bombay, Calcutta and the Durgapur-Asansol Industrial belt and also, in part, the State of Kerala, the importance of ration shops and fair price shops has come down sharply, these shops exerting what is essentially a moderating influence on private shops. Even in Kerala, there has been a substantial reduction in the offtake of foodgrains from the public distribution system. Notwithstanding the easy

availability of foodgrains outside of fair price shops, however, the number of such shops has been on the increase, and the population covered by statutory rationing has also not declined. The supply of foodgrains from these shops at subsidised prices has also helped the urban working classes and others who have preferred to buy their food requirements from fair price shops rather than the open market.

2.10.4 A major development particularly from around 1975 or so, has been the significant change in the balance of payments outlook, with a rapid and sharp increase in foreign exchange reserves since 1976-77. There has as a result been a sea change in outlook on import policy. Import policy has been progressively liberalised, and the import procedures have also been drastically simplified, all import items not specifically banned or restricted being freely importable. In fact, the attempt now is to find suitable imports calculated to help the development effort without undue hurt to domestic production capability, rather than to find ways and means to curb imports. There has also been a general relaxation of exchange control, of travel regulations, and of procedures connected with exchange transactions.

2.10.5 Indeed, there has, since 1975, been under way a steady effort to dismantle controls, and a large number of controls were removed during the past four years, namely, over 1975 to 1978. To give a few examples, during 1975, the "informal" control over the distribution of indigenous copper and zinc was withdrawn; the Cement (Conservation and Regulation of Use) Order was rescinded; a number of clauses of the Iron and Steel (Control) Order were held in abeyance; and control on the movement of coke other than hard coke was withdrawn. In 1976, the control orders on the distribution and sale of cars and scooters were withdrawn (control being kept only on the sale of one make of scooters which was later withdrawn in January 1978). The Control Orders on viscose staple fibre and on prices of Synthetic Rubber were also withdrawn in 1976. In 1977, wheat and rice zones were abolished in April and September respectively. The Cotton Textiles (Export Control) Order of 1949 was also withdrawn. In December 1977, a new industrial policy was announced and in 1978, a new textile policy was also announced. Further, in 1978, the Refined Groundnut Oil (Regulation of Refining and Price) Control Order was rescinded and more importantly, sugar was fully decontrolled in August 1978 when the Levy Sugar Supply (Control) Order was rescinded. The exemption limit for purposes of industrial licensing was raised from Rs. 1 crore to Rs. 3 crores. In 1979, the Order relating to stock holding limits of sugar and khandsari by recognised dealers, was withdrawn. There has been a reduction in the number of items "canalised" for import, both in 1977-78 and in 1978-79. However, a number of new controls have been introduced; and a number of past controls have been modified.

2.10.6 Two further developments that may be noted in a study of the evolution of the control system are —

(a) The increasing emphasis being attached to organising a strong and wide network of public distribution. In this connection, an announcement has been made by the Government of India in early 1979 after a meeting with the Chief Ministers of all States, held on January 5, 1979, that the public

distribution system would be strengthened so as to reach the benefits of supplies of essential commodities at reasonable prices to the people in all parts of the country, even in distant and far-flung areas, and also that the range of commodities to be sold from such fair price shops would be increased suitably so as to make the operation economically viable.

(b) There has also developed increasing administrative control over the price and distribution of many key products in lieu of statutory or formal control. For instance, even though there is no statutory control over the prices of coal and of steel - which, in the normal course, would be based on thorough going cost enquiries, normal for items proposed for price control - there is an unwritten bar to any increase in coal and steel prices as indeed in the price of any important item produced by a public sector enterprise, without formal approval of the Union Cabinet. There are other types of administrative control, and such a procedure is necessirily more arbitrary than formal price control based on independent cost investigations.

2.11 Selective Credit Control

2.11.1 The history of selective credit control is briefly indicated here for the entire period since Independence, as it could form an alternative to "corrective" physical controls. The Reserve Bank of India has powers of regulation of bank credit for specific purposes - or selective credit control as it has come to be called - under the Banking Regulation Act of 1949. The need for such control was felt as a result of the speculative build-up in commodity markets, an experience shared by many other countries in the world.

2.11.2 There have generally been three stages in the evolution of selective credit control, as briefly indicated below:—

(i) 1949-56: when the Reserve Bank did not exercise any formal powers but merely advised banks to adopt a cautious approach in their lending activities, as deemed necessary.

(ii) 1956-69: Selective credit control was formally introduced in May 1956, when banks were asked to increase the margin against credit limits for paddy and rice. Between 1956 and 1969, various types of selective credit control were extended to other foodgrains, sugar and gur, raw jute, jute goods, oilseeds and vegetable oils (including vanaspati), cotton and kapas (including cotton yarn), as also in respect of clean advances and advances against shares.

(iii) 1970 onwards: Until 1969, the instruments of selective credit control affected only the availability of credit, by way of minimum margins and ceilings on credit. A differentiation by way of the cost of credit was introduced in January 1970.

2.11.3 Selective credit controls have been directed mainly in the matter of stocking of agricultural produce, and have varied from time to time in accordance with seasonal changes and shortages/surpluses in supply. Briefly, while these control measures have had the effect of reducing bank advances for the items concerned, the controls cannot be

said to have succeeded in regulating either prices or supplies, because of the play of large non-banking funds in the stocking of these commodities. The play of speculative forces in respect of items subject to selective credit control has revealed the strength of the "parallel economy" in the country, and has inter alia brought out the futility of attempting piece meal controls without a package of measures calculated to bring a balance between supply and demand.

2.12 Subsidies

2.12.1 Subsidies have a long history. Drought and famine relief, and taccavi loans to farmers (on concessional terms) as well as relief in land revenue in case of crop failure have been a traditional feature of the Indian revenue system. A major development in the programme of subsidisation was the grant of relief and rehabilitation finance for refugee resettlement after partition of the country in 1947. Subsidised industrial housing was started with the initiation of the Five Year Plans. The growth of subsidies other than these two historical forms of subsidy is briefly indicated below.

2.12.2 Subsidies can take different forms. One could distinguish between open or overt subsidies paid directly to the beneficiaries; and covert subsidisation, e.g. by way of a calculated loss incurred in providing a commodity or a service. A common form of such covert subsidisation is the loss incurred by the transport authorities on suburban and urban passenger transport respectively. One could also distinguish between subsidies met out of the exchequer directly, and subsidies which are paid by one part of the community to another, without any burden on the fiscal system, e.g. through a dual price policy. Thirdly, tax concessions or concessional interest rates involve a subsidy for the beneficiaries of the concessions. The former involves a budgetary subsidy, whereas the latter is only sometimes financed out of the budget. The usual method of granting an interest subsidy is cross subsidistion of one set of borrowers by other borrowers, who are required to pay a higher rate of interest.

2.12.3 The Committee is concerned essentially with overt subsidies which involve a burden on the public exchequer. To that extent, the Committee's study of subsidies would relate to those which are of the nature of "negative taxes". Where there is a cross subsidisation of one section of the community by another, e.g. through the dual price system, there are no budgetary implications.

2.12.4 Even though the scheme of differential rate of interest (DRI) does not always involve a budgetary outgo, the supply of concessional finance to certain sectors is buttressed by a budgetary subsidy to the lending agency. The DRI scheme thus becomes relevant from the point of view of the Committee's study.

2.12.5 Fiscal incentives to some producers - by way of devices like the tax holiday for new investment, the development rebate/investment allowance, special deductions in the case of companies engaged in "priority industries," and capital subsidies for locating industrial units in notified backward areas - have been given from time to time. The tax holiday scheme was first introduced in 1949. The intention was to enable new undertakings to improve their net profitability in the initial years after start-up. A development rebate was introduced for all new-industrial undertakings in 1955-56, though later the development rebate/investment allowance was limited to a more selective group of industries defined as "priority industries". The subsidisation of khadi commenced in 1954-55 and has been extended later, though to a smaller extent, to handloom and to a few selected village

industries. The National Small Industries Corporation started a "hire purchase" scheme at a concessional rate of interest met out of the budget, from May 1970. A scheme of price preference in Government purchases for small scale industries, at the rate of 15 per cent, was started in 1956-57. The facility of a capital grant to industries set up in notified backward areas - at 15 per cent upto a maximum grant of Rs. 15 lakhs, was initiated (though in a somewhat modified form) in August 1971.

2.12.6 A few subsidies have grown in size and importance lately, so much so that only three of them, namely, food subsidies (at Rs. 560 crores), subsidies on fertilisers (at Rs. 448 crores) and subsidies on exports (at Rs. 335 crores) today account for some 70 per cent of the aggregate budgetary subsidies in 1979 80 (B.E.).

2.12.7 Although food subsidies were first given from as far back as 1950 51, when the Centre supplied imported foodgrains to the States at a concessional price, food subsidies have really grown in magnitute from the early 1970s. As late as 1971-72, the total food subsidy paid out of the Central budget was no more than Rs. 47 crores. By 1978-79, food subsidy had grown more than 10 times to Rs. 570 crores (R. E.).

2.12.8 Fertiliser subsidy - as a direct outgo from the budget - commenced only from 1976-77, even though imported fertilisers were subsidised earlier by the pooling of the price of such fertilisers with indigenously munufactured fertilisers, the controlled price of which had been kept low. As of today, there are four components of the fertiliser subsidy: on indigenously produced nitrogenous fertilisers, indigenously produced phosphatic fertilisers, imported fertilisers, and on the freight on fertilisers the retail price of which is kept uniform throughout the country.

2.12.9 The subsidisation of export has a somewhat long and complex history. The scheme of the tying of import licences with exports, which commenced in the late 1950s and early 1960s, did not involve a direct budgetary outgo, but involved a cross subsidisation by manufacturers requiring imported raw materials, of exporters who were granted import licences in excess of their own requirements, The scheme was given up after the devaluation of the rupee in June 1966. However, even though devaluation was intended to correct the imbalance in domestic costs arising from an artificially high rate of exchange, very soon export incentives in a direct form had to be re-introduced in order to encourage the export of new products, particularly of manufactured items and engineering goods, as also to take note of the disadvantage in freight rates on exports as compared to freight rates from other countries of the world. Currently, exporters have the following facilities, though not all of them can be deemed to be subsidies: drawback of duty paid by exporters on materials used in export production; cash compensatory support given to various items of export at a percentage of the f.o.b. value of exports; "import replenishment" licences in respect of imported inputs required for export production; "export packing credit" at a concessional rate; support in lieu of high freight rates incurred; and a 133.5 per cent deduction for tax purposes in respect of promotional expenditures incurred for export.

2.12.10 Apart from the three major subsidies namely, on food, fertilisers and export - there are a large number of other subsidies given from the budget. As would be seen later, in Chapter 11 on Subsidies, not all these payments are really of the nature of subsidies. Equally, there are a number of other payments which are really of the nature of subsidies, but are not shown as such, and are hidden under various

other entries in the budget. In any case, losses of public sector undertakings - incurred as a part of deliberate policy to keep down prices of essential items - are a covert subsidy, and are not recorded as subsidies in the budget, but shown as loans to the undertakings.

2.12.11 The interest subsidy arising from losses of public sector undertakings dates back to early years of the establishment of public sector enterprises in certain key and basic industries. Where the losses of these undertakings are covered up by budgetary loans, most of these undertakings are understandably not able to pay the interest on such loans. The interest on these loans is given to these undertakings as a subsidy.

2.12.12 Apart from the losses incurred by some of the major undertakings of the Government, the power rates of State Electricity Boards have traditionally involved a subsidisation of the consumers through a system of electricity tariffs which has not met the full cost of generation and transmission of electricity, for most consumers. There has also been a subsidy involved in the provision of irrigation water, in the supply of milk to urban consumers by State operated dairy farms, and in the provision of urban transportation.

2.12.13 Apart from the above, both the Central Government and the States provide additional subsidies to manufacturers for setting up new industrial undertakings, the former in backward areas, and the latter as a promotional measure. Expenditure undertaken for the creation of infrastructure facilities through industrial estates can, of course, be looked at as developmental outlay; but in addition to concessional rent and other facilities for factory sheds, etc., there have also been numerous other tax and other concessions, particularly by way of remission of the sales tax by a long term (usually, 18 years) loan at a highly concessional rate of interest to new undertakings equal to the sales tax payable by them.

2.12.14 Of late, apart from the subsidy provided to backward areas, by way of a capital grant to new units in notified backward areas, the Government of India has also evolved a scheme for a transport subsidy to hilly areas. Certain types of transport - as for instance rail-cum-sea movement of coal, or shipping to the Andaman and Nicobar Islands - have for long enjoyed a subsidy. Of late, the transport subsidy has been extended to transportation of certain items like cement, to all district headquarters not served by the Railways, and to fertilisers.

2.12.15 Shipping companies have also been granted a budgetary subsidy in respect of interest on the acquisition of ships - on commercial deferred payment terms from abroad.

2.12.16 A recent example of an important subsidy given not out of the public exchequer but through the financial institutions is the Soft Loan Scheme of finance introduced for the rehabilitation, modernisation and diversification of five important large scale industries, namely, cotton textiles, jute, sugar, cement and certain selected engineering industries. The scheme was initiated in 1976. Initially, the funds so provided by the IDBI were supposed to be refinanced by the Government of India by the grant of concessional funds, but subsequently, the scheme became part of the total programme of lending by the three major term lending institutions, namely, the IDBI, the ICICI and the IFCI.

2.12.17 Even prior to this, following the report of a committee on Differential Interest Rates 11_/ in 1971, a scheme of supply of loans by commercial banks at concessional interest rates to vulnerable sections of the population, was drawn up. Under the DRI scheme as it was called, the nationalised banks have been advancing funds to the economically weaker sections of the population at 4 per cent interest. However, until very recently, the banks were lending upto a maximum of ½ per cent of their total advances at this interest under the DRI scheme, and the banks have been requested only in the last few months to raise the percentage of such loans to 1 per cent of their total advances.

2.12.18. As noted earlier, there are a number of budgetary subsidies which are not so treated in the budget, but are treated as part of developmental outlay. Such expenditures first commenced with the budget for 1969-70. Of late, there has been an increase in such outlay, under various rural development programmes - all covered in the 1979-80 budget under the Integrated Rural Development Scheme - encompassing the grants to the Small Farmers Development Agency (SFDA), the Marginal Farmers and Agricultural Labourers Programme (MFAL), the Drought Prone Areas Programme (DPAP), and extending also to tribal, hilly areas, backward classes, etc. This evinces a new thrust in public policy, directing subsidies to the really vulnerable sections of the population.

11_/ Report of the Committee on Differencial Interest Rates: Reserve Bank of India, 1971.

Chapter 3

STATUTORY SANCTION

3.1 The status of economic legislation

3.1.1 In order to derive a frame of reference for the study of controls, the Committee started with the 'Index to India Code' for drawing up a complete list of legislative enactments on economic matters at present in operation in the country. The list of enactments compiled from the 'Index' may not, however, be complete for this purpose inasmuch as the available 'Index to India Code' relates only to revisions upto mid 1977, and does not furthermore cover all the amendments or Acts of repeal of earlier legislation, by new enactments under totally different titles. The list compiled by the Committee from the 'Index to India Code', therefore, could include some enactments which are no longer on the statute book.

3.1.2 Subject to the above limitation, the Committee has compiled, from the 'Index to India Code', a list of extant economic legislation in India. Annex 3.1 gives the list of such enactments on all economic matters other than financial legislation and revenue Acts and enactments pertaining to labour and to banking, insurance and other financial institutions.

3.1.3. From this list, the Committee proceeded to select economic sectors on which to focus attention, for a study of control legislation thereon. Annex 3.2 gives a list of all extant statutory controls on commodities, services or other activities arranged Ministry-wise, valid as of 31.3.1979. It would be seen that not all control legislation as listed at Annex 3.1 have been shown in Annex 3.2. For example, the Cotton Cloth Act of 1918 is still on the statute book(and therefore legally in force) as of now, but it has no practical or operational significance because of the control exercised under the Cotton Textile (Control) Order of 1948. In drawing up Annex 3.2, the Committee has selected only the items/activities which are of significance today, in relation to the functioning of the economic system.

3.1.4. The Committee would like to point out at this juncture that it has not studied all the legislative enactments which are valid today, as per the 'Index to India Code'. There are two reasons for this selective examination. First, the Committee has been informed by some of the concerned authorities themselves that many Acts which are out of date and, therefore, prima facie redundant, continue to be on the statute book as of today, simply because nobody has really bothered to examine their relevance. Annex 3.3 gives a list of such legislation pertaining to the area of responsibility of the Ministry of Shipping and Transport, which that Ministry has pointed out to the Committee is still valid and which, in the opinion of that Ministry, calls for immediate review, to determine the relevance of the legislation today. The Committee is advised that such a review has, in fact, been initiated. Secondly, and more importantly, the Committee has not examined all the control legislation and control orders which are valid as of today because, as stated in Chapter 1, the Committee has necessarily had to limit its detailed examination of controls to a sample study. To reiterate, the Committee has left outside its examination the entire transport sector and controls on drugs, and a number of other sectors/industries/activities, for reasons already mentioned in Chapter 1. Even in drawing up Annex 3.2, therefore, the Committee has omitted some of the control laws that exist as of

today, because it has not been able to go over all the extant legislation so as to determine the nature of the control exercised by all the statutes.

3.1.5 The Committee would therefore like to emphasise that its study should be treated as a first exercise in the study of extant control legislation. The Committee would recommend that all concerned authorities should undertake a review of all past laws and control orders. As a matter of convenience, all pre-Independence legislation could be examined first, followed by a review of all post-Independence legislation systematically, decade by decade.

3.2 Control orders

3.2.1 On the basis of Annex 3.2, the Committee proceeded to pick out the main items which are today subject to one form of control or the other, from which a selection was made by the Committee of the controls to be studied in depth. The Committee would like to stress in this context that the broad Control Orders usually provide merely the frame; actual control arises from various notifications which are issued from time to time under the enabling Control Orders. These notifications run into hundreds, and a study of the actual content of the control thereunder has been undertaken by the Committee as part of the detailed study of sectors examined. There are, of course, some laws which constitute controls by themselves. Sometimes, Rules are issued under the relevant Acts, as guidance to both the control authorities and the public, and the Acts and the Rules constitute the totality of the control. But there are some laws under which no Rules are framed. The MRTP Act is one such, the law itself providing the control. The Boilers Act and the Rules issued thereunder constitute the totality of control on boilers. Under the Essential Commodities Act, however, numerous Control Orders have been issued; and the actual control is thereafter elaborated in Notifications issued thereunder from time to time.

3.2.2 It would be seen from Annex 3.2 that for the 62 items/activities/sectors etc. listed therein, there are 105 extant controls - not treating Acts and Rules issued thereunder as separate- which are valid as of today, implying thereby the application of more than one control on one item. The Committee would like to suggest, without prejudice to any other recommendation that may follow in regard to specific items, the consolidation and simplification of these control orders by bringing them together, to the extent possible, so that the law can be more easily and readily understood.

3.2.3 The Committee has observed a major lacuna in the actual operation of controls, which stems from lack of public knowledge as to the actual controls that exist at any point of time. As indicated earlier in para 3.2.1, in many instances, the control exercised by the executive authorities stems from notifications issued from time to time in exercise of the general control covered by Control Orders or by legislation. To repeat the example of the Essential Comodities Act, The Act provides the general umbrella of control over various facets of production, distribution, stockholding and pricing of any item designated as "essential". Once an item has been designated as essential, specific control orders are issued with respect to different aspects of the item from time to time. The Cotton Textile (Control) Order of 1948 which was initially issued under the Essential Supplies (Temporary Powers) Ordinance of 1946 and later covered by the Act of the same title, and eventually continued under the Essential Commodities Act of 1955, is one such Control Order. Under the Cotton Textile (Control)

Order, diverse notifications have been issued from time to time, which constitute the actual body of control on textiles. These are so many and so complex that few people really know what the control system is.

3.2.4. A major lacuna in the above control (on cotton textiles) is that notifications issued from time to time under the Cotton Textile (Control) Order- right from inception in 1948- have never been consolidated and never brought out so far in the form of one single consolidated and updated control notification. Over this period, a large number of notifications has been issued, and there have been periodic amendments to earlier notifications on different facets of the control, as per different clauses of the Cotton Textile (Control) Order. This is true of similar controls on other commodities also, but the Cotton Textile (Control) Order provides perhaps the most extreme case of untidiness in this regard. Indeed, the Committee is constrained to note that in no place in the Government of India does a completely updated set of the extant control system on textiles exist. Even the Textile Commissioner is not in a position to produce such a document, and those in a position to demand access to office files- as this Committee has been -would need to peruse more than 100 different files handled by a number of dealing hands in the Textile Commissioner's office to obtain the fully updated version of the control on cotton textiles, raw cotton and synthetic fibres, etc.or to wade through all the notifications issued since 1948-which has been done-to prepare a fully updated version of the extant control on cotton textiles.

3.2.5 The Committee is giving, in an Appendix to its report, the extant control orders on the major items studied by it, as of 31.3.1979. This is merely a routine compendium of the control law as it exists as of now, on these vital matters. Even the updated control system is couched in such legal jargon, and is so complex as to be somewhat confusing to the layman. The Committee feels that this is one of the factors, namely, the lack of clarity as well as lack of wide publicity in regard to the controls that exist, which gives rise to harassment, corruption and attendant evils of the regulation of economic activity. Unfortunately, this aspect of the problem of controls has never attracted the attention of either the Government or of those who are in senior executive positions, deciding on the substance of the control system. But the substance of the control system gets lost in the maze of verbiage, to all except professional "advisers".

3.2.6 The Committee notes that the Indian Cotton Mills Federation keeps an updated version of the control system, so as to be able to advise its members. The Committee recommends that the authorities exercising control should periodically, say, once a year, bring out such an updated version of extant controls.

3.2.7 The Committee notes that although it is a Parliamentary requirement that whenever any subordinate legislation- which is what a control notification amounts to- makes for any substantive change in the control system, a fully updated version of the amended order should be brought out 1/ and laid on the Table of the two Houses of Parlia-

1/ "Whenever there are extensive amendments to any rules, the rules should be reprinted in full as amended".....Extract from Deptt. of Parliamentary Affairs, Office Memorandum to all Ministries, dated 6.10.1976, on the recommendations of the Committee on Subordinate Legislation of both the Houses of Parliament.

ment. Nonetheless, the Committee finds that such fully updated notifications are rarely placed before Parliament, and the updating has generally not been even attempted. The Committee recommends that it should be a legislative requirement to update each control order (and all notifications issued thereunder) on an annual basis, which should be given wide publicity.

3.3 An overview

3.3.1 The Committee would not at this juncture wish to dilate further on this subject, and would wish to focus attention on some of the controls which it has studied in detail. Nonetheless, the Committee feels that three types of action should be taken as a matter of urgency, in order that the dead wood can be removed and controls made comprehensible and meaningful. In this connection the Committee would recommend that —

(a) Where there is more than one control order on one item, unless there are strong reasons to the contrary, it should be possible to consolidate and bring out a comprehensive control order in which all aspects of control over that item are covered. This would inter alia, bring to attention any conflict or contradiction that may exist as between different control orders on the same subject.

(b) Following from this, there should be an attempt to simplify the extant control orders. A look at the extant control orders on textiles, given in the Appendix to the Report, would purport to indicate what the Committee has in mind.

(c) Various notifications and amendments are issued from time to time and in order that the control system is clearly known and understood, it is necessary to update all control orders and to publish the extant control system with all amendments brought into one place. Even this attempt would bring out the futility of many of the notifications today for the objectives for which they had initially been devised.

(d) Although it is a matter of detail, control orders are issued today in different parts of the gazette, which makes it difficult for even the professional to keep abreast of all control orders. In order to simplify matters, all control orders should be issued in one designated part of the gazette, so that the public can be informed of controls more readily and easily.

3.3.2 The Committee would like to reiterate that in its view, the effort made by this Committee can only be treated as a beginning and that much further work is necessary if the proliferation of control notifications is to be arrested, and the system simplified and made to serve the purposes for which it had been devised. The example of the present control system on textiles is conclusive evidence, if any were necessary, of the urgent need for such an exercise.

Chapter 4

APPROACH OF THE COMMITTEE

4.1 Introduction

4.1.1 The somewhat long and complex history of controls and subsidies in India and the summary description of the extant control system given in the preceding two chapters would bring out the following essential features of the system that has evolved over the years:—

(a) Controls were initially imposed primarily to meet the exigencies of the war situation, and have been continued thereafter in order to subserve the objectives of planning.

(b) Over the years, there have emerged two types of controls: promotional and corrective - to subserve long term objectives and short term exigencies respectively.

(c) There has also emerged a multiplicity of controls, to meet multiple objectives of policy. As a result, some controls have tended to neutralise each other. Short term controls in particular have frequently negated long term objectives.

(d) There has also emerged a multiplicity of control authorities, which has led to the emergence of a highly complex system.

(e) Indeed, the complexity of the control system today is such that in many areas, even the executive authorities in charge of the implementation and administration of the control system are not familiar with all the control orders and notifications, which have never been updated and never brought together in a consolidated form over the last thirty years. Some of the extant orders are not only complex and confusing, they are also totally irrelevant in the context of the new objectives of policy which have since been adopted.

(f) In many areas, administrative control, as also informal control, has taken the place of formal or statutory controls.

(g) There has been an inbuilt tendency for the perpetuation of both controls and subsidies, and to the proliferation of controls to meet short term exigencies. In fact, it is this feature of the control system which has made it highly complex and confusing.

(h) Almost all of these controls have been discretionary, and have vested considerable powers on the control authorities.

(i) The control system has in general given scope for corruption in the administration of controls, leading to generation of considerable black money. As a result, the policy objectives have often been defeated.

(j) Controls have also led to considerable delays, e.g. in industrial licensing, which have at times affected the smooth functioning and the growth of the economy.

(k) A large, entrenched body of vested interests in and outside Government has grown which favours perpetuation of controls even where objective conditions may warrant their abrogation.

(l) Nonetheless, both controls and subsidies have helped to promote a number of policy objectives. Controls have at times become inescapable in the face of exogenous forces and the external situation.

4.1.2 In the context of the present unequal distribution of income and wealth and the imperfections of the market system in India, controls and subsidies have been necessary in order to encourage or discourage certain types and forms of production, and to provide support to certain categories of producers, as also to the consumption of certain sections of the population.

4.1.3 Controls are essentially manifestations of State intervention to give a desired direction to investment, production and distribution. Indeed, some forms of control are inescapable in modern society, and must be deemed to be necessary even in the longer run. Equally, the ideals of freedom and democracy accepted by the Indian people will not admit of a totally controlled and regimented economy. There has been near-unanimity on these points in the evidence tendered by all authorities and interests, before the Committee; and even those who have advocated removal of controls have conceded the need for retaining certain overall regulations and restraints in the larger national interest. The question, therefore, is not whether or not to have any controls and subsidies, but their objectives, beneficiaries, extent, nature and mechanics.

4.2 Rationale of controls

4.2.1 The basic rationale in favour of controls may be indicated briefly as below:—

(a) that scarce national resources should be directed to priority sectors as per national Plans and public policy;

(b) that the basic consumption needs of the people should be met, and in particular, the needs of the weaker sections of the society should be provided at prices within their reach;

(c) that disparities in income and wealth should be reduced, and undesirable concentration of economic and industrial power should be prevented;

(d) that employment and income for large masses of people should be protected by safeguarding and promoting the growth of production and other economic activity in the decentralised sector; and finally

(e) that self-reliance should be pursued by promoting technological capability, viable import substitution and exports in tune with the resource endowment of the country.

4.2.2 The Constitution of India contains several provisions which enjoin on the State the need not only to intervene in private business, but also to commence and conduct business under its ownership. The main provisions are contained in Part IV - Directive Principles of State Policy which, though not enforceable by any court, are nevertheless fundamental in the governance of the country. Articles 38, 39, 41 and 43 are particularly relevant.

Article 38 declares that "the State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of the national life".

Article 39 sets out that the State shall "direct its policy towards securing - (a) that the citizens............. have the right to an adequate means of livelihood; (b) that the ownership and control of the material resources of the community are so distributed as best to subserve the common goods; (c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment".

Article 41 says that the State shall" make effective provision for.......... public assistance in case of unemployment, old age" etc.

Article 43 requires that the State shall "endeavour to promote cottage industry on an individual or cooperative basis in rural areas".

4.2.3 One of the main Constitutional limitations on the powers of Government in the matter of regulation of private business comes from the Fundamental Rights. Clauses (1)(f) and (g) of Article 19 are of particular relevance apart from Articles 31, 31B and 31C. Clause (1)(f) of Article 19 confers on the citizens the right to acquire, hold and dispose of property and Clause (g) to practise any profession or to carry on any occupation, trade or business. Clauses (5) and (6) of Article 19 however, abridge the rights of the citizens whereby the State is not prevented from making any law imposing reasonable restrictions on the exercise of the said rights of the citizens. Similarly, Article 31, which empowers the right to property to the citizens, can also be encroached upon by the State.

4.2.4 Part XIII of the Constitution relating to "trade, commerce and intercourse within the territory of India", also provides for State restrictions on the freedom of trade and commerce. Articles 302 and 303 are of particular relevance. Article 302 lays down that "Parliament may, by law, impose such restrictions on the freedom of trade, commerce or intercourse between one State and another or within any part of the territory of India as may be required in the public interest". The Constitutional provisions thus not only empower the State to regulate and control industry and trade, the Directive Principles of State Policy envisage that this should be done to achieve the objectives of State policy.

4.2.5 Clearly, all instruments of policy, including controls and subsidies, should be devised to meeting the policy objectives indicated in para 4.2.1 above. These also serve as the guiding principles for testing the usefulness or relevance of all existing controls, as also in formulating new controls. Any control which does not serve to promote (or militates against) one or other of the above objectives, should not obviously be continued or imposed.

4.2.6 A major feature of the Indian economy is the imperfection of the market system. Obligopolistic tendencies in the market are generally strong, and the administrative system has been seen from past experience to be by and large not properly geared to control or even to moderate the pernicious effects of monopolistic control by a few over a large part of production or supply.

4.2.7 Controls, for analytical purposes, can broadly be divided into two categories, promotional and corrective. The former are intended to ensure that development, and the evolving structure of the economy, accord with the spirit of the Directive Principles of State Policy as interpreted and elaborated by the elected representatives of the people from time to time. Such controls, designed as these are to bring about structural changes of a basic nature, have necessarily to operate over a long period of time.

4.2.8 Certain enactments like the IDR Act, the MRTP Act and the Companies Act empower the Government to impose specific controls and constraints over certain sectors of the economy. The Government issues orders/directions to impose specific controls under the above laws from time to time. The Committee feels that all controls should have a limited period of validity and the enactments under which such controls are imposed also need to be evaluated periodically, and amended if necessary to ensure that they serve the purposes for which they were devised.

4.2.9 The second category would encompass all controls such as are designed and introduced essentially with the objective of meeting imbalances of one kind or another that arise in the economy from time to time. All such corrective controls should have a definite life span of three years at the most, at the end of which they should automatically lapse unless specifically extended. In general, all commodity controls should fall in this category.

4.2.10 Usually, it has been found that a control once introduced tends to be in operation even when the need for it ceases. Hence, a monitoring and review system must be part of any control mechanism. Such a system is desirable for two reasons. A control while sub-serving one objective of State policy may at the same time, and often does, work against another objective, unless a degree of complementarity happens to exist between the two objectives. Secondly, a system of review enables an evaluation of the net social benefit of a control measure and provides a basis for assessing the desirability of its continuance in the original form or for its modification. While promotional control measures should have a longer life than corrective control measures, there should be legislative provision that even such measures are comprehensively reviewed from time to time, say, once every 5 years.

4.2.11 A critical scrutiny of all existing controls, against the basic criteria indicated above, should help to clear up the maze of controls.

4.3 <u>Mechanics of control</u>

4.3.1 Each control should be designed to assist or protect, or to restrain or discourage clearly defined target groups, or specified areas of activity. The

provisions and the machanics of the control have to be so devised as to ensure that the intended impact is in fact achieved. The Committee is constrained to note that this has not always happened.

4.3.2 Controls have a tendency to generate delays and corruption. The more complex the control machanism, and the more numerous the authorities administering the control, the greater is the scope for delay and graft. Indeed, the extent of harassment and corruption generated by controls can be such as to make the remedy worse than the disease. Controls considered necessary should, therefore, be simple and the points of authority as few as possible.

4.3.3 Numerous types of approval to be obtained by a single applicant for any activity often present the greatest hurdle to new entrepreneurs and to trade. Apart from the delays involved in this procedure, each single authority concerned appears to have a virtual veto power in regard to every proposal. When a single activity such as retail trade is subject to the requirement of numerous licences, the scope for harrassment and graft is considerable. An important element in the mechanics of control to be devised would be to avoid such possibility. In regard to approvals to be accorded, two steps are necessary: (a) time limits within which final decision must be taken; and (b) the final powers to approve or to reject a proposal should vest with one specified authority.

4.3.4 Controls can sometimes become self-defeating because of their sheer number, diversity and complexity. For instance, the development of small industries has been inhibited by the need to obtain a number of licences and clearances from various authorities.

4.3.5 Delays and graft also increase in the same proportion as the extent of discretion vested in the authorities in deciding specific cases. Where discretion is considerable, as at present, the power of money to influence decisions can completely defeat the objective of control. Controls should therefore be as non-discretionary as possible, and should leave the minimum of discretion to the authorities administering them.

4.3.6 The above criteria indicate the need to carefully consider an appropriate policy-mix for a desired objective, rather than to impose a variety of disparate controls compartmentally administered to fit diverse elements of the stated objective. For example, if a commodity is in scarce supply, not only price controls but deliberate measures to increase its availability, an effective distribution system and also control of Government over an adequate share of the supply of that commodity for public distribution are all necessary as part of the same package of measures.

4.3.7 The above implies, in effect, (a) a conscious policy of supply/demand management encompassing licensing and other steps to increase capacity; (b) timely imports and the holding of buffer stocks where possible so as to ensure continued availability; and (c) fiscal policy calculated to ensure a reasonable balance between supply and demand.

4.3.8 Price and distribution controls are usually adopted to meet conditions of scarcity of the commodities concerned. Such controls must be viewed as essentially short term devices, and the scarcity itself has to be simultaneously and purposefully

tackled, so that the control becomes unnecessary and can be allowed to lapse after a stipulated period. This is particularly important in order to ensure that price and distribution controls do not themselves perpetuate a shortage which may have arisen initially for special reasons.

4.3.9 In the past, there has been a tendency to impose too many controls, both over price and distribution, without much prior thought either as to the implications or the implementability and effectiveness of the controls. Furthermore, price control has frequently had the effect of giving unremunerative prices to producers, leading to lack of investment interest in some of the essential industries. It is this which has led to the perpetuation of shortages, and the generation of black money. The numerous notifications and control orders have not helped the consumer and have inhibited investment and production. Price controls do not by themselves ensure that the poorest consumer will be able to get the articles concerned. Price control without effective control over distribution can be self-defeating, and lead to a flourishing black-market.

4.3.10 Even where effective distribution control is necessary and possible, control over prices should be limited to articles which go into the consumption basket of the common man, or intermediate goods which are either basic or go to the manufacture of consumption goods required by the common man, or essential inputs for the decentralised sector affecting large employment.

4.3.11 In some cases, the ends of policy could be adequately served by laying down and widely publicising clear guidelines for the applicants to follow, monitoring whether the guidelines are in fact being followed, and promptly penalising those who overstep or ignore them. Such a procedure may minimise the need for physical controls.

4.3.12 There are instances where although formal controls are withdrawn, informal controls through verbal direction to firms regarding prices, production and distribution are resorted to. The system of informal controls is worse than that of formal controls inasmuch as it leaves wide discretion and complete freedom from accountability to those who exercise such controls. The Committee feels that there should be no informal or administrative controls in lieu of formal and statutory controls.

4.3.13 One of the instruments of policy has been to promote the public sector in the area of industry and commerce for acquiring for Government control of the commanding heights of the economy. However, both with regard to the pricing policy and day-to-day operations, the effectiveness of the public sector undertakings has been reduced, as a result of increasing administrative control and interference in their operations. The consequences of such administrative interference in economic terms are quite serious and the Committee is constrained to invite attention to them. This raises the basic problem of reconciling accountability of public sector undertakings - which is a must - with their autonomy. In principle, the need to grant full autonomy to public sector undertakings has been conceded. In practice, autonomy is negated because of many super-ordinates who have no direct responsibility for performance, but who nevertheless thwart the operations of public sector undertakings through various kinds of formal and informal directives, guidelines, investigations and supervision etc. Also, in practice, most of the public sector undertakings have come to be treated as little more than subordinate offices of the Government. The requirements of accountability

should be with reference to prescribed policy and overall performance and not in terms of day-to-day management. Any enterprise would call for risk taking, which is not characteristic of Government administration. The result has been that gradually, power and control have come to vest with the Government administration, eroding initiative and responsibility at the management level. The Committee recommends a reversal of the present administrative control over public sector undertakings, so that the goal of policy set for the public sector undertakings can be achieved with greater success. The management of public sector undertakings should be judged by the results, and those who prove inefficient should be penalised.

4. 3. 14 Export controls have to be devised so as to ensure adequate availability for domestic use of mass consumption goods, or raw materials in short supply. A long term export strategy should also be evolved to increase their output so that exports can be based on increases in output, and a stable export market can be built up.

4. 3. 15 A few other vital steps are necessary to minimise the harmful effects of controls, and to maximise their benefit to the community. First, the consumer movement which is practically non-existent in our country today, needs to be purposefully developed. The growth of the consumer movement needs to be fostered and financially supported by the State. Secondly, the administration of controls should be more open and there should be free availability of information relating to the administration of controls to curb malpractices. In short, the principles, procedures, actions and decisions of the authorities should be known widely and made accessible to citizens at large.

4. 3. 16 The business community in many parts of the world undertakes voluntary implementation of controls. The Committee found most chambers of commerce and industry not anxious to undertake such responsibility. While some specialised industry and trade associations have in the past undertaken limited self-regulation, the general distrust of the business community by the masses of citizens make any general system of self-monitoring by the business community a somewhat distant goal. Nonetheless, the Committee feels that apart from administrative improvements and a vibrant consumer movement, a measure of self regulation by chambers of commerce and industry is also required for achieving equitable pricing and distribution.

4. 3. 17 There is no special legislation in the country governing chambers of trade, commerce and industry. They are registered under the Societies Act or the Companies Act. It would be desirable to bring in special legislation governing chambers of commerce and industry. This legislation should ensure compulsory membership of chambers of commerce or industry associations by private traders and entrepreneurs. The law should also provide that each chamber will prescribe a minimum code of business conduct and shall have statutory powers to enforce them. A beginning could be made in regard to some sectors or activities, and the system extended to cover other sectors if the experiment proves successful.

4. 3. 18 Howsoever carefully a control may be devised, certain discretionary powers will still remain with the officials administering the control, although the effort should be to minimise the area of discretion as far as possible. In order that the officials administering controls should be able to exercise their discretion in an

independent, speedy and objective manner, it is necessary that they are free to exercise such discretion without any kind of extraneous pressure. Conversely, the officials should also be accountable for inaction.

4.4 Price control

4.4.1 In the management of supply, agricultural and industrial products present somewhat different problems. Most essential consumer goods depend on an adequacy of supply of agricultural products, in particular foodgrains, edible oils and industrial raw materials like cotton, jute and sugarcane. The supply of these products also comes from a large number of producers, who themselves need protection.

4.4.2 The management of supply of agricultural products involves the provision of necessary inputs for increasing agricultural productivity; determination of reasonable relative prices of agricultural products such as would encourage the cultivation of the desired crops; announcement and operation of "support prices" and the operation of buffer stocks so as to make the support prices effective, in the interest of both the producers and the consumers. Price control in this connection shades off into price support operations.

4.4.3 In regard to the pricing of industrial products, the problems are somewhat different. For essential commodities, while it is necessary to ensure that the articles are available to the consumers at reasonable prices, it is necessary at the same time to ensure that prices are not such as would inhibit investment for the expansion of capacity for the product. A number of other considerations arise in connection with the determination of prices of industrial products where control becomes necessary, as for instance the divergence between the historical cost and replacement cost of capital equipment. Controlled prices should be such as would attract new investment, and one way to overcome the problem is to set apart an allowance in the price for replacement, modernisation and expansion of the industry, and not for distribution as dividend.

4.5 Subsidies

4.5.1 Subsidies are necessary in the Indian economy for three major reasons: first, to mitigate the effects of extreme inequalities of income and wealth in the country and to raise the consumption levels of the vulnerable sections of the population; secondly, to protect and to promote the growth of employment oriented production, in the decentralised sector; and finally, to temprorarily subsidise what may be termed as "infant industries".

4.5.2 As in the case of controls, the target groups likely to benefit from any subsidy have to be clearly identified and the fact should be adequately publicised to ensure that subsidies do reach the intended beneficiaries. In practice, frequently this does not happen.

4.5.3 Also, as in the case of controls, all subsidies should have a well-defined period of validity, say, three years, and before any subsidy is extended beyond its stipulated life, a review of the costs and the benefits of the subsidy should be placed before Parliament by the Ministry/Department administering the subsidy.

4.5.4 Both the Central and State Governments sometimes impose various kinds of levies on some articles, and at the same time subsidise the same. When the taxes and subsidies are levied and granted on the same item across the board, they tend to cancel each other, with the burden of infructuous expenditure on the administration requiring both the collection of levies and payment of subsidies. Apart from the infructuous expenditure, there are possibilities of delay and corruption, as a result of this procedure.

4.5.5 There has lately arisen a tendency for unrestrained competition in subsidisation of new investments by State Governments, to attract industry. This development has unfortunate results. Apart from non-optimal location of industries, this approach militates against backward and less developed regions of the country, since the capacity of the more developed States to offer subsidies is far greater than the capacity of the less developed ones. Even basic objectives like maximisation of employment are sometimes ignored in the offer of competitive subsidies. There is need for uniform guidelines being adopted by different States to ensure that the overall objective of diverting investment to really backward areas is not frustrated and the exchequer is not burdened with avoidable subsidies.

4.5.6 The case of hilly and remote regions, and of the tribal and other backward classes falls in an entirely different category. Until such time as they can be brought into the mainstream of the country's life and economic activities, and their full potential for productive enterprise realised, they have to be subsidised and nurtured by the rest of the community.

4.5.7 The subsidisation of export is related to improving the competitive capacity of the export sector, for which clear guidelines and safeguards are necessary to ensure that the export sector is not hindered by internal taxes and other similar bottlenecks.

4.5.8 A major principle to be followed in regard to subsidies is that subsidies should be overt rather than hidden, as for instance for coal. Budgetary support for meeting losses of public sector undertakings, where they arise as a result of unrealistic pricing of the products (or services) provided by such undertakings, falls under the category of a hidden subsidy to the consumers of the product.

Chapter 5

INDUSTRIAL APPROVALS

5.1 Introduction

5.1.1 A brief background to the rationale of the controls over the setting up of new industrial capacity has been given in Chapter 4. In the evidence collected by the Committee, perhaps no area of control has come in for such widespread criticism as the conspectus of controls over investment in industry.

5.1.2 The setting up of new industrial undertaking or the expansion of an existing one, or the manufacture of a 'new article' in an existing undertaking, is subject to the following controls or approvals by diverse authorities:-

(i) industrial licensing of capacity under IDR Act;

(ii) capital goods import licensing under Import Control;

(iii) approval of foreign collaboration terms;

(iv) approval under the MRTP Act;

(v) approval of the issue of capital for corporate bodies under the Capital Issues (Control) Act; and

(vi) approval under the Companies Act for corporate bodies.

Not all the above approvals are, of course, required by all parties, and one or more of the controls becomes relevant under different circumstances.

5.1.3 It is not proposed to discuss in this report the MRTP Act and the Companies Act. These aspects of control have been examined very comprehensively only very recently by a separate, non-Government high-power Committee under Justice Sachar, and though these controls doubtless constitute significant restraints calculated to attain important policy objectives, and though many complaints have been received by the Committee that the present system does not achieve these objectives but only results in increasing the number of controls and in increasing delays, the Committee has not attempted to go over the same ground as studied in depth by another independent body, almost concurrently. The Committee understands that the report of the Sachar Committee is under the active consideration of Government.

5.2 Industrial licensing

5.2.1 The objectives of industrial licensing are -

(a) to channel the scarce resources of capital and materials into priority sectors;

(b) to bring about better regional dispersal of industries, including the development of backward areas;

(c) to ensure the dispersal of ownership and avoid the growth of economic concentration and of monopolies; and

(d) to encourage the development of small scale industries.

5.2.2 The goal of prevention of "concentration" was, in a sense, not one of the original objectives of industrial licensing policy, but has come to be one of the important criteria of licensing in recent years, particularly after the report of the Industrial Licensing Policy Inquiry Committee in 1969.

5.2.3 The evolution of the more important changes in industrial licensing policy has been briefly traced in Chapter 2. As of today, the setting up of a new industrial undertaking (or the substantial expansion of an existing one) is subject to the following exemptions from the licensing provisions of the IDR Act :-

(a) For 24 specified industries, parties not falling under the MRTP Act or FERA are exempt from licensing. (These are indicated in Annex 5.1.)

(b) Similar exemption (to non-MRTP and non-FERA companies) is available in respect of all investment upto Rs. 3 crores for industries other than those reserved for the small scale sector, provided -

(i) that the requirement of foreign exchange for the import of plant is less than 10 per cent of the total value of plant,

(ii) that the requirement of imported raw materials is less than 10 per cent of the annual value of output,

(iii) that the new undertaking is not set up in an urban area with a population of more than 5 lakhs.

(c) 29 specified industries have been permitted to produce upto their full installed capacity, i.e. in excess of the licensed capacity. (These industries are listed in Annex 5.2.) This facility is not available to companies falling under the MRTP Act or FERA, except under certain conditions.

(d) Free diversification into allied areas is permitted to selected engineering industries. (Details are given in Annex 5.3.)

(e) Certain specified engineering industries have been allowed to expand capacity by 5 per cent per annum without prior approval. (The relevant list of industries is given in Annex 5.4.)

(f) Where replacement of equipment leads to expansion of capacity, recognition is permitted to the higher capacity by the concerned administrative Ministry without recourse to industrial licensing.

.2.4 Industrial licensing policy places certain restrictions on the scale of production insofar as the creation of new capacity for certain industries or products is oncerned, as below :-

(i) A total of 807 industries or products have been listed where no new production facility - or even expansion - would be permitted to any but small scale industries. For this purpose, a small scale industry has been defined as one having plant and equipment of upto Rs. 10 lakhs – in case of ancillary units upto Rs. 15 lakhs.

(ii) For certain activities, even small scale units are not allowed to take up production capacity - these industries being subject to special regulation - the most important industries of this category being coal; textiles (in the interest of handloom weaving); leather and matches (in the interest of cottage industry production); milk foods and malted foods (in the interest of maintenance of liquid milk supply);etc.

(iii) Although there is no specific reservation of many items for cottage industries, some 23 industries and activities are specially looked after by the Khadi and Village Industries Commission (as per Annex 5.5), in addition to some other production activities in the decentralised sector, looked after by separate organisations like the Handlooms Commissioner, the Silk Board, the Coir Board and the Handicrafts Board.

5.2.5 The findings of the Industrial Licensing Policy Inquiry Committee of 1969 are that the licensing system —

(a) has not ensured the development of industries according to Plan priorities;

(b) has failed to prevent the growth of capacity in non-essential industries;

(c) has not been effective in securing proper regional dispersal of industries and in the development of backward areas; and

(d) has not succeeded in containing monopolies and the concentration of economic power.

5.2.6 Three types of suggestions have been made in this connection to the Committee by State Governments; Chambers of Commerce and Industry Associations; outside experts; trade union leaders; and economists. These suggestions are wide-ranging, and all of these cannot naturally be commented on here. Some of the more important suggestions are briefly indicated below.

5.2.7 The views of the State Governments have ranged between two extremes ; from the grant of licensing powers to State Governments (usually desired by the more developed States), to a deliberate licensing policy slant in directing new investments to backward States, calling for even more rigid licensing policy than in existence today (recommended by the industrially backward States). The latter have also been generally in favour of permitting MRTP companies to expand capacity in the really backward and far-flung States.

5.2.8 Representatives of small scale industry have expressed three types of views. Organisations representing the decentralised sector have favoured reservation of some industries exclusively for cottage and village industries. Representatives of modern small scale industry have suggested that they should be permitted normal growth opportunities to expand into medium scale units. On the other hand, some among them have been emphatic in the need to retain the exclusivity of small scale units, and have suggested stricter enforcement of the reservation policy. The large scale industry associations have favoured a relaxation, even total abolition of industrial licensing conditions. Their main suggestions have ranged from complete removal of industrial licensing to more liberal facility for expansion of capacity; enhancement of the Rs. 20 crore assets limit in respect of the MRTP Act (in consonance with the degree of inflation in the economy); clarification of Government policy on nationalisation of industries and payment of compensation in the event of nationalisation (especially, the dues of small sundry creditors); free facility to MRTP companies to invest in designated backward areas in the interest of development of such areas; and the delicensing of all 'priority' industries (with strict control over investment in non-priority industries).

5.2.9 The views of independent experts and authorities have also varied considerably. The general trend has been to suggest the relaxation of licensing and other restrictions on investment (in the interest of greater competition), with the focus of attention being shifted to other instruments of policy like fiscal adjustments, control over term loans to industry, etc. On the other hand, a number of experts have cogently argued for retention of overall regulation and control over the economy in the interest of pursuing the objectives of planning. It has been suggested by some, in this connection, that the present ills of the economy stem from unsatisfactory or inadequate implementation of controls, which it is argued ought to be corrected. The need for control has been highlighted by these experts in the light of the imperfections in the market system and the unequal distribution of income in India.

5.2.10 There has been considerable emphasis by many experts on the restrictive aspects of the present industrial licensing policy of Government. For instance, it has been stated that in terms of current policies with liberal imports, it is quite easy to obtain an import licence (for capital goods or for raw materials) but the process of approvals required for setting up new capacity of a reasonable size i.e. beyond the delicensed limit of Rs. 3 crores - is both time consuming and difficult. It has been emphasised by many experts that obtaining an industrial licence is only the starting point of a long chain of approvals required, not only of the Central Government but also of the State Government and thereafter of the term lending financial institutions; and that the licensing system, which is supposed to take note of power, transport and other infrastructure, provides no assurance of the supply of power, or the availability of rail transport facilities, when the project is ready. Yet another point repeatedly emphasised is that too many approvals from too many different authorities are required even as of today - even after the setting up of the Secretariat for Industrial Approvals (SIA) - and that each of these authorities has virtual veto powers over a project of any size or consequence, with the result that the preliminaries to the setting up of industrial capacity involve a lot of time, effort and lobbying.

5.2.11 The Committee finds that the system today is deficient inasmuch as there exist no clear cut programme guidelines, such as had been issued at the time of the Third Five Year Plan in the form of "Programmes of Industrial Development", by the Planning

Commission. True, the Ministry of Industry has been issuing "Guidelines for Industries" on an annual basis, for the past few years, but these cannot be taken as having an organic link with the Five Year Plan. As a result, industrial licensing has not been very effective as an instrument for furthering Plan objectives and Plan targets.

5.2.12 The Committee notes that since the institution of the Secretariat for Industrial Approvals, in November 1973, delays in the disposal of applications for industrial licences have been made up considerably. The Committee would commend the procedure that has been evolved. But the Committee notes that speed of disposal has probably been achieved by exempting from licensing investments upto Rs. 3 crores. The Committee feels that exemption from licensing depending on the value of investment is not likely to subserve the objective of policy, and that exemptions from the licensing provisions of the IDR Act should follow certain principles.

5.2.13 In the matter of industrial licensing, the Committee feels that the exemption from licensing, of all investments below Rs. 3 crores, is essentially an administrative simplification which may defeat the policy goals. This procedure has been devised to avoid administrative delays by reducing the number of applications required to be examined by the Licensing Committee. It has been represented to the Committee that all manner of industries, irrelevant to the needs of the economy and contrary to Plan priorities, get established as a result of this exemption, since an investment of Rs. 3 crores is quite adequate for them. The Committee agrees with this view, and feels that as a result, one of the main purposes of industrial licensing gets defeated.

5.2.14 The Committee would suggest the following approach:-

(a) A list of totally 'banned' industries may be announced from time to time. For such industries, apart from no new unit being permitted - large or small - existing units would also not be allowed to expand for as long as the 'ban' is not removed. For such industries, the facilities of land, water, power, bank credit and key inputs for current production should also not be available.

(b) Among other industries, there should be a "reserved" group with the following clear cut categories:-

(i) Those which would be open only to village and cottage industries in the interest of employment (e.g. certain types of cloth production which may be reserved for khadi and handloom weavers), which would be banned for all other categories of investors.

(ii) Those which would be open to all units with an investment limit on plant and equipment of Rs. 10 lakhs, i.e. small scale industries as presently defined. These would not be open for new investment by large scale industries. This principle is already in force.

(iii) Those which would be reserved specifically for the public sector. This policy is also in force, in terms of the Industrial Policy Resolution of 1956.

(c) Industries in which increased capacity is urgently needed would be clearly laid down. These would be open to all investors, without recourse to industrial licensing, subject to clearance under the MRTP Act and FERA as may be separately required. Such lists would be announced from time to time, and would be valid for three years. This policy would be analogous to the delicensing of industries announced in the past.

(d) Finally, there would be a restricted list of industries - which are borderline cases - which should be subject to licensing, for all medium and large scale industries, whether or not covered under the MRTP Act or the FERA. This is partly in the interest of regional dispersal; partly in the interest of utilisation of the limited savings available for channelling investments in accordance with plan priorities; and partly to subserve various other objectives of policy. The present exemption of Rs.3 crores would, however, continue for this category except for MRTP and FERA companies.*

In brief, there would be four lists : banned, reserved, open and restricted. No licensing would be involved in the first three of these lists.

5.2.15 The Committee recognises that the last mentioned category would imply continuance of a discretionary control by the executive authority. The discretionary element can be minimised by widely publicising the guidelines and criteria for licensing - undertaken only in a limited way so far - and by publicity given, not only to the applications approved but also the applications rejected. In any case, the applications rejected come up for review in the Licensing Committee when the State Governments so desire - and generally they do so desire, for almost all rejected cases - and wider publicity in regard to dates of application and dates of approval/rejection would open the way to monitoring by industry, trade and the public, in addition to the limited monitoring possible today by the State Governments.

5.2.16 The Committee feels that scrutiny under the MRTP Act is a separate scrutiny which should follow its own clear guidelines in regard to concentration, to dominance and monopoly and in regard to restrictive trade practices, where relevant.

5.2.17 The Committee notes that in view of the multiple objectives of policy, some degree of conflict between some of the instruments of policy - each designed to subserve some objective - may become unavoidable. For this reason and because all approvals are not concentrated in one authority, the Committee recommends that the final power to approve or to veto any proposal should rest with one single authority who may be empowered to veto the objections of others.

5.2.18 There is one other issue which has been raised by some State Governments, which in turn raises some general problems. As of today, there is general exemption from licensing of investments below Rs. 3 crores. There is, however, provision for "registration" of all such undertakings with the DGTD, for "statistical purposes". In practice, the DGTD, sometimes does not register some of the applications; and State Governments have, therefore, represented that the exemption from licensing of investments below Rs. 3 crores is a paper exemption and hinders instead of helping entrepreneurs. The Committee is not in favour of blanket exemption from licensing of all units

*Shri Bagaram Tulpule and Shri L.C.Jain are of the view that licensing requirements should apply even for units with investment of less than Rs.3 crores provided the product line falls in the restricted list.

involving investments upto Rs. 3 crores, but to the extent exemptions as recommended by the Committee are available, the registering authority should be the District Industries Centre, a copy being endorsed to the DGTD strictly for statistical purposes.

5.2.19 While there has been frequent talk of punishing those who exceed licensed capacity deliberately, no thought has been given to punish unwarranted under-utilisation of capacity. It is, of course, difficult to identify cases where production is deliberately kept below capacity, because there are many factors over which the producer has no control, like failure of power supply or non-availability of coal or other inputs, which may cause production to fall below capacity. Also, except under situations of monopoly or cartels, it is difficult to envisage a producer deliberately curtailing production. Nonetheless, since approval of capacity is regulated by the licensing system which prevents new entrants, thereby conferring on existing licensed holders an advantage, it is imperative that those who are granted capacity are kept under constant pressure to make full use of their installed capacity.

5.2.20 Similarly, the problem of those who obtain licences merely to pre-empt capacity continues to persist. The rules with regard to non-implementation of letters of intent/ industrial licences granted must be made more stringent and monitored vigorously.

5.3 <u>Capital Goods licensing</u>

5.3.1 The focus of attention in regard to the licensing of capital goods imports has, over the years, shifted from restriction on imports (and the tying of imports to country credits) for balance of payments reasons to protection of the indigenous capital goods manufacturing industry.

5.3.2 The extant policy on capital goods import, as outlined in the Import Trade Control Policy for 1978-79, classifies capital goods into three main categories : those the import of which is totally banned; those the import of which is permitted under the Open General Licence (sometimes with the condition that only Actual Users should have the import facility); and those the import of which is allowed after necessary clearance from the indigenous angle.

5.3.3 In regard to the last category, namely, capital goods which are permitted for import only after scrutiny, the system evolved since the early seventies has been as follows. All intending importers are required to advertise their import requirements with detailed specifications etc.; giving indigenous manufacturers an opportunity to bid for the supply of the required equipment. The advertisement requirement applies to cases where the requirement of import exceeds Rs. 7.5 lakhs, all others being required to get their applications screened by the DGTD. The availability of indigenous equipment, as per the requirements of the investor, is ascertained before an import licence application is considered by the Import Control authorities.

5.3.4 At one stage, the scrutiny of import licence applications for capital goods was made by the DGTD from the twin angles of "essentiality" and indigenous availability. The former scrutiny involves evaluation of the import needs with reference to the capacity licensed. Examination from the essentiality angle is today somewhat redundant, and in fact futile. The increased capacity of the domestic capital goods manufacturing industry and the OGL announced on many items of equipment not manufactured indigenously make the scrutiny irrelevant. The Committee feels that this scrutiny should be dispensed with.

5.3.5 In the evidence tendered before the Committee, the spokesmen of the capital goods manufacturing industries have represented that the recent liberalisation of import of equipment, introduced in 1978-79 without adequate protection by way of tariffs has led to hardship to a number of equipment manufacturing industries. This matter would be discussed fully in Chapter 8 on Import and Export.

5.3.6 The Committee notes that in the policy for 1978-79, a new procedure has been introduced for 14 selected industries (list at Annex. 5.6) where the project authorities are required to issue global tender enquiries for equipment required by them. The selection of equipment as well as of equipment suppliers is to be made from all bids, both foreign and Indian, after scrutiny by a committee in the Department of Heavy Industry. The Committee feels that this procedure is avoidably cumbersome and is likely to strain the administrative system apart from adding yet another layer of discretionary control to the regime of import licensing. The Committee feels that it would be desirable to rely on tariffs to protect indigenous manufacturing industry.

5.4 Foreign investment/collaboration policy

5.4.1 The Foreign investment/collaboration policy of the Government has been governed for long years by the policy statement made by Prime Minister Nehru in Parliament in April, 1949. The policy in this regard may be divided into two distinct categories -

(a) the policy on foreign investments; and

(b) the policy on technology import (popularly known as foreign collabortion policy).

5.4.2 The policy on foreign investments was amended recently by the Foreign Exchange Regulation Act of 1973. In terms of the extant policy as per FERA, certain guidelines have been laid down in regard to companies with majority equity interest held by foreign nationals. All foreign companies which are not "Appendix I industries" as per the Industrial Policy Statement of February, 1973, have to dilute their foreign holding to a maximum of 40 per cent of the equity. This process is now nearing completion and is expected to be completed very soon. Various maxima as to the percentage of foreign equity have been laid down in regard to different types of industrial undertakings, the maximum of foreign ownership permissible being 74 per cent of the equity with an intermediate step at 51 per cent. It is not necessary or relevant here to go into details in regard to the actual conditions for different percentages of foreign equity ownership.

5.4.3 The substance of evidence tendered before the Committee by Indian industry is that the import of technology should be further liberalised, and that certain special terms and conditions, now a feature of all collaboration terms approved, should be withdrawn. Attention has been drawn especially to the following issues:-

(a) Royalty rates are generally limited to 5 per cent, and the period of agreement to 5 years. Both are stated to be inadequate for sophisticated areas of technology, leading to the import of second rate technology.

(b) Government insists on a clause that the technology should be allowed to be passed on by the Indian party to another Indian party, with the approval of the foreign party and of the Government of India . It is contended that this clause is ineffective in practice, but leads nonetheless, to a lot of suspicion and irritation.

(c) In consideration of the need to avoid repetitive import of technology, Government is reluctant to allow several separate collaboration agreements for the same item. It is suggested that this frequently leads to a monopoly position for parties who have managed to secure collaboration in any field.

(d) The import of technology is frequently opposed on the ground that researches are being carried out by Indian research organisations, and Indian technology should be tried out instead of importing technology. This is stated to lead to a complete hold up of many applications for technology import, even where indigenous technology is in the laboratory stage. It is also stated that sometimes, indigenous technology amounts to little more than the re-discovery of outmoded inefficient technology.

5.4.4 The policy on foreign collaboration - limited to the problem of import of technology and controls thereon-presents a two-fold problem. It may be briefly mentioned in this connection that there has, over the years, been a systematic attempt to liberalise and to simplify the policy and the procedures connected with the import of technology.

5.4.5 It has long been the policy of the Government to prefer out-right royalty and technical know-how payments for the inflow of foreign technology, in lieu of foreign investment. Various lists have been put out from time to time - one such illustrative list has been published only recently - to indicate the areas where the foreign collaboration would be granted and areas where foreign collaboration is not necessary. Approval procedures have also been simplified from time to time, the concerned administrative Ministries being given powers in regard to approvals upto certain specified limits of royalty and know-how payments, as well as for the import of drawings and designs.

5.4.6 There are, however, three points relevant in this connection. First, there is need for taking a positive view and to formulate a plan, in regard to areas in which the import of technology should be sought as a matter of deliberate policy. By and large, this would be the responsibility of research organisations and public sector agencies and undertakings, and would range from such obvious matters as improved strains of seed and genetic improvements in plant and animal breeding, to general matters such as control of environmental pollution,particularly the pollution of water and air and technology for more efficient use of scarce materials (e.g. in the matter of making lighter and better alloys), and technology for the utilisation of bye-products and waste products.

5.4.7 There is also the problem of technological updating of private industry. Where suitable indigenous technology is available, there is of course no need to import technology. Where indigenous technology is not available, industry should be encouraged to improve its productivity by not only freer import of technology but also its adaptation to

suit Indian conditions and resources endowment. This brings up an important consideration in the context of technology import, that we should not import technology which is either avoidably capital intensive, or not relevant in the Indian context today The essentiality of technology import has to be judged from the point of view of the requirement of the economy and its goals of policy. Selectivity should therefore be exercised in this matter, so that the import of technology does not militate against development of employment oriented production, or to the development of products or activities which may divert scarce resources to the manufacture of items which are of no relevance to the accepted growth strategy.

5.4.8 It is this amalgam of technology import relevant to our needs, and the encouragement to indigenous institutions to adapt and further develop all available technology including imported technology to suit our requirements and conditions that should govern the policy on foreign collaboration. In this background, it would not be possible to give up scrutiny of applications for technology import, since mere sophistication of technology cannot be its own justification in the matter of its import.

5.5 Capital issues control

5.5.1 The objective of control over capital issues has been to channel the limited capital resources available for investment in the country into desired fields. Apart from the above main objective, capital issues control has been put to several other uses, these being-

(a) the regulation of bonus issues;

(b) the regulation of terms and conditions of foreign capital participation in Indian companies; and the regulation of the terms and conditions of dilution or repatriation of foreign equity (under FERA);

(c) the regulation of capital re-organisation plans of companies, including mergers and amalgamations;

(d) the regulation of the capital structure of companies, as well as the terms and conditions of additional issues; and

(e) the regulation of the volume and timing of the private issue of capital.

5.5.2 Since April, 1976, the issue of capital upto Rs. 50 lakhs has been exempted from the purview of the control. Certain other exemptions and guidelines have been issued lately, streamlining the working of the control over capital issues. The present position is as follows:-

(i) All companies registered under the MRTP Act have to seek the consent of the Controller of Capital Issues for issue of capital.

(ii) Consent of the Controller of Capital Issues is necessary for the following issues of securities:-

(a) bonus issues by any company irrespective of the amount involved;

(b) issue of securities by a private limited company in which an amount exceeding 20% is subscribed by a public limited company or companies;

(c) issue of preference shares carrying participating or conversion rights;

(d) issue of debentures carrying conversion rights or issue of debentures not payable to registered holders;

(e) issue of securities at a premium or discount; and

(f) issue of securities involving relaxation of any of the conditions mentioned in the Capital Issues (Exemption) Order of 1969, which apart from the clauses referred to under (a) to (e) above, relate to cases of issue of shares arising from a revaluation of assets or creation of intangible assets; where the rate of dividend on preference shares exceeds the notified amount; where the promoters' share is below the prescribed minimum of the equity; where the value of preference shares is more than 1/3rd of the total equity; where a reservation is sought to be made, while issuing the equity in favour of a person or a specified class of persons; and finally, where the debt; equity ratio exceeds 2:1.

(iii) Subject to the cases mentioned above where consent of the Controller of Capital Issues is necessary, the position of companies not registered under the MRTP Act is as under -

(a) Private companies, Banking companies and Isurance companies are exempt from seeking the approval of the Controller of Capital Issues.

(b) Government companies are also exempt, provided no portion of the issue of securities in their case is to the general public.

(c) A public limited company is exempt insofar as issue of capital not exceeding Rs. 50 lakhs in a period of 365 days is concerned. It is required to intimate the Controller of Capital Issues its intent to issue capital (within the guidelines issued) and has to seek acknowledgement of the statement of its proposal from him, in case the issue of capital exceeds Rs. 50 lakhs. In case any of the conditions laid down in Clause 5 of the Exemption Order of 1969 is not fulfilled, it has to seek the prior approval of the Controller of Capital Issues.

5.5.3 The guidelines issued by the Controller of Capital Issues pertain to the acceptable pattern and structure of capital, gross under capitalisation both being discouraged. The debt : equity ratio is to be maintained within the ratio of 1:1 going upto ratio 2:1 (a higher ratio being permitted on merit for certain industries). The promoters' share of equity is suggested at a minimum of 15 per cent for companies with a

capital of upto Rs. 1 crore, with a sliding scale, upto 10 per cent for comapnies with a capital of Rs. 5 crores. No premium is allowed on initial issues.

5.5.4 There are several other detailed rules, exemptions and guidelines which are not relevant for the present purpose. Bonus issues are not included in the list of exemptions, and specific approval has to be sought for each issue of bonus shares. Guidelines have also been issued in regard to debenture issues.

5.5.5 Several authorities have, in the course of evidence tendered before the Committee, contended that the control over capital issues is redundant and should be withdrawn. The Administrative Reforms Commission's Study Team on Economic Administration (April 1967) has also expressed the view that the "control over capital issues is the most glaring example of Government tendency to continue operating administrative controls long after they have outlived their utility". The ARC in its final report, however, recommend continuance of the Capital Issues Control, but with a number of drastic changes.

5.5.6 Capital issues control has not really operated to channel investments into desirable sectors, as originally envisaged, but has been effective in respect of some of the the other aspects of regulation, in particular, the terms of dilution of foreign equity, the issue of bonus shares etc. The guidelines issued lately have generally reduced both delays and the need, on the part of companies, to necessarily seek prior permission of the Capital Issues Controller before any issue.

5.5.7 There are some provisions of capital issues control which appear today to be redundant. Some aspects of the control over capital issues should be - and indeed are - the responsibility of the Company Affairs Department. Some others, like the control over bonus issues could also be relaxed by laying down suitable guidelines in regard to conditions for the issue of bonus shares. The issue of clear guidelines, with a stipulation that the applicants would merely file a notice, as to the issue of bonus shares (and a report after issue of the shares), would appear to be desirable. The Controller of Capital Issues would, in the event, be required to exercise control functions only in respect of the cases where the guidelines laid down are not proposed to be followed by the companies. In this situation the office of the Controller of Capital Issues should be abolished* and the Department of Economic Affairs should exercise control in regard to Capital Issues insofar as FERA companies are concerned, and the Department of Company Affairs in regard to other residual matters.

Dr. A.K.Ghosh feels that this is a matter of administrative reform.

Chapter 6

MINING ACTIVITY

6.1 Introduction

6.1.1 Just as the Industries (Development and Regulation) Act governs the licensing policy in regard to the creation of industrial capacity, mining activity is regulated by the Mines and Minerals (Regulation and Development) Act, and the Mineral Concession Rules issued thereunder.

6.1.2 Prior to Independence, mineral rights in the permanent settlement areas vested with the zamindars. In the rest of British India and the princely states, mineral rights vested with the Provincial Governments and the princely states.

6.1.3 During the Second World War various regulatory steps were taken in consultation with the Provinces/States, mainly in respect of minerals required for the war effort. After the war, the interim Government convened a Mineral Policy Conference in January 1947, in recognition of the importance of the development of mining. Later, after Independence, the Central Government enacted the Mines and Minerals (Regulation and Development) Act in 1948 - hereafter designated MMRD Act - followed up by the framing of Mineral Concession Rules (MC Rules) in April 1949, for regulating the grant of prospecting licences and mining leases for minerals other than petroleum and natural gas. Prior to that, the Mineral Conservation and Development Rules (MCDR) were framed in March 1948, to deal with the conservation aspect. Later, the Mining Leases (Modification of Terms) Rules of 1958 were issued - under the 1948 Act - to deal with modifications of the terms of leases granted prior to April 1949. The Indian Mines Act was passed in March 1952 to deal with mine safety and associated regulations.

6.1.4 The extant legislation is the MMRD Act of December 1957 as amended in 1972, with MC Rules issued in November 1960.

6.1.5 Mining activity provides large employment, much of it in backward areas. It also provides, together with agriculture, the raw materials required by industry. In fact, mining provides the sinews for all industrial growth by way of inputs for energy and metal based industries. Since minerals are essentially "wasting assets", their use requires to be regulated in the interest of conservation.

6.1.6 The mineral policy of the Government of India as framed in the context of the First Five Year Plan (1951-56), stressed the need for proper assessment of the ore reserves; mining in the most efficient manner; and attention to the development of strategic minerals.

6.2 The MMRD Act of 1957 and the MC Rules of 1960

6.2.1 In brief, the extant legislation on mining activity, by way of the MMRD Act and the MC Rules deals with

(a) the area of control by Central Government;

(b) the procedures for grant of mineral concessions by States; and
(c) certain rules on conservation and development aspects.

6.2.2 Control over mineral activity has two facets. Minerals are divided into scheduled and non-scheduled minerals. Those listed in the First Schedule to the MMRD Act (reproduced in Annex 6.1) are minerals in respect of which prospecting licences/mining leases can be granted by the States only after approval by the Central Government. For all other minerals, the State Governments are the final authority in regard to grant of mineral concessions, except that no prospecting licence/mining lease can be granted to a foreigner or a foreign majority firm without the approval of the Central Government.

6.2.3 The second aspect of control relates to the rates of royalty that the States may charge on minerals extracted. These rates are laid down in the Second Schedule to the MMRD Act. The royalty rates can be revised by the Central Government once in four years. The rates of dead rent on leased areas from which no minerals are raised are similarly laid down in the Third Schedule to the MMRD Act and can be changed only by the Central Government.

6.3 <u>Assessment of the working of the system</u>

6.3.1 There are a number of provisions in the MMRD Act and the MC Rules which are obsolete or redundant, or which appear to need modification today. Some relatively simple modifications are briefly indicated below:-

(a) The current procedure requires every applicant for a mining or a prospecting lease to first obtain a 'Certificate of Approval'. This was devised initially for purposes of screening applicants with a view to ascertaining their capability to undertake mining operations. In practice, this has become a routine approval, causing only delay and giving occasion for graft rather than for any proper screening. The requirement of obtaining a Certificate of Approval before applying for a Prospecting Lease or a Mining Lease (PL/ML) may therefore be dispensed with.

(b) The Act refers to applicants for Prospecting/Mining Leases as necessarily having to be either Indian nationals or majority Indian companies. Now that, in terms of FERA, companies having more than 40 per cent foreign equity are treated as "foreign", the same consistent definition should be applied to mining leases.

(c) The Act, as of today, extends over the whole of India but is silent in regard to minerals in the ocean-bed of the continental shelf. Powers relating to the exploitation of sea-bed resources should vest with the Central Government.

(d) The MMRD Act requires the production of income tax clearance certificates by applicants with a PL/ML application. Similar

provision used to exist in regard to the grant of import licences under the Import Trade Control. The rules regarding import licensing have lately been changed, and applications for import licences have only to be accompanied by an affidavit regarding the filing of income tax returns and payment of taxes due by the applicants. This procedure should be extended to mining leases also.

6.3.2 There are certain major problems which arise today in the operation of the MMRD Act and the MC Rules. Some of these are merely procedural problems, but some are also substantive. These problems are briefly indicated below:–

(a) The list of minerals in First Schedule needs revision and updating. For example, bauxite - required for aluminium - and magnesite, dolomite and flux grade limestone required for steel production, should be in First Schedule. Gypsum, and precious stones - a very wide generic term - need not be in First Schedule. This is a matter which obviously requires periodic review.

(b) There is a lot of delay in the grant of mining leases. At present, the law provides a period of 12 months (from the date of application) within which an application for a mining lease can be either granted or rejected by a State Government. For First Schedule minerals, the State Government has to obtain the approval of the Central Government. No time limit is legally prescribed for the latter though lately, the Department of Mines has set itself a limit of three months administratively, for the consideration of such cases.

(c) Where a State Government does not dispose of an application within the stipulated period of 12 months, applications are "deemed" to have been rejected. The applicants have the right to petition the Central Government (within a period of three months) for a revision of the "deemed rejection". After the stipulated period of 12 months, the concerned State Government cannot grant a mining lease even if it wishes to, and has to request the Centre to set aside the deemed rejection before it (i.e. the State Government) can pass any orders. There is no legal time limit on the Central Government in regard to disposal of a "revision petition".

(d) The present law as well as procedures regarding the action to be taken in such cases lead to confusion and delay. The Centre has powers - on consideration of a revision petition, or a reference from the State Government –to "set aside" the "deemed rejection", which can only permit the State Government to pass necessary orders. It has no powers to direct the State Government to grant any lease, even in the case of First Schedule minerals. The Centre has to indicate the period within which the State Government has to pass the necessary orders. If the State Government fails to do so within the specified period, no action can again be taken, either by the Centre or by the State, and unless the State Government again requests an extension of the period (within which to pass orders), the Central Government cannot do anything.

(e) If the State Government does not take any decision, the applicant can only seek redress in a court of law, or come up with a second revision petition before the Centre, which is generally futile because the Centre has no final authority in the matter. Though there are instances of law suits by applicants, few genuine investors are interested in such a confrontation with the State Government. The smaller applicants, in particular, usually cannot and do not pursue the matter. In the result, sometimes applications for mining leases have been known to take years to be decided. The views of the Committee on the problems listed under sub-paras (c), (d) and (e) have been given later.

(f) The State Governments have powers of premature termination of existing leases under the 1972 Amendment Act. This can be done if the lessee violates some condition of the lease, or if the State Government is of opinion that doing so would be in the interest of mineral development. In the same way, the State Government can also terminate mining leases for minor minerals. In either case there has to be consultation between the Central Government and the concerned State Government. The MC Rules also provide for termination of mining leases for violation of lease terms. Where a lessee violates the terms of his lease, cancellation of the lease would doubtless be justified. But this should not be done for small, technical violations of the letter of the lease deed. More importantly, where there is a change in the policy of Government, the lessees should be given some time to adjust so that loss of capital can be avoided or minimised.

(g) There is today no minimum period indicated in the MMRD Act, for the grant of mining leases, which merely stipulates that for scheduled minerals the lease period could be upto 30 years in the case of coal, iron ore or bauxite and upto 20 years for other minerals and renewable for a like period. There is need for specifying a minimum period of lease - which may be different for different minerals - in order to avoid uncertainty and to reduce the possibility of corruption.

(h) The State Governments have powers to reserve areas for exploitation by the Government. Sometimes large areas are reserved for public sector undertakings without any careful plan or prior prospecting, or even a scheme of phased exploitation. The result is that large areas remain unexplored and unexploited. The Committee feels that there should be no "reservation" of any area beyond a period of five years, for exploitation by the public sector, without a clear plan of exploration and exploitation, except where specifically ordered in the interest of conservation. Such orders may be issued only by the Centre, in the larger national interest, in respect of minerals in which our reserves may be small.

(i) There is a tendency on the part of State Governments to stipulate several extraneous conditions in the PL/ML. One condition frequently imposed is that the lessee should put up a mineral based

plant within the State within a given period; or that to the extent the mineral is not used for captive consumption, it should be sold to the State Government at cost. Some State Governments have, on occasion, not lifted the material but have also delayed giving the party permission to sell in the market. Yet another condition imposed frequently is that the mineral should not be taken out of the State for further processing. The last condition stands in the way of rational industrial development and of economic unity of the country, and ultimately, even of mineral development, which is employment intensive. While the interest of employment in the State should certainly be kept in mind, it would be against the interest of States themselves to insist on this condition.

(j) There is a problem which arises from lack of co-ordinated action concerning the mineral policy and the industrial policy of the Government. The MC Rules provide that if there is more than one applicant for a lease for any particular area, the earlier applicant should generally be given preference. While priority of date of application would normally be justifiable, where integrated action is necessary, mining leases should be granted to the holders of industrial licences for a mineral based industry, as for instance, in respect of leases for limestone for cement plants. At present there are no clear guidelines on this subject, nor any procedure to ensure coordinated action between the Centre and the States so that all related decisions on an application are taken consistently, and delays involved in sequential consideration of different aspects of the same application, avoided. The Committee feels that the required co-ordination in the matter of grant of mining leases and industrial licences, should be achieved.

(k) There arise certain problems in regard to surface rights and the right to mine. The State Governments give preference to 'raiyats' of the land over other applicants for mineral concession, even though the latter may be more qualified for mining operations. For underground mining, the rights of the 'raiyat' are not affected. However, for surface mining, sometimes mining rights are misused to dispossess and alienate small farmers from their land and their holdings in the name of mineral exploitation. This happens particularly in the tribal areas where, apart from farming - of which there may not be much - the tribal people's entire livelihood may get disturbed and disrupted by their ouster from their habitat, in the name of mining. For underground mining, all that is necessary is "access" and for this the State Government has to, and can, determine just compensation to the 'raiyat'. There is no question of the 'raiyat' having priority in the matter of a lease in the case of underground mining. For surface mining, one practical solution would be to change the scale of compensation to the 'raiyat' significantly in favour of the 'raiyat' and to ensure protection of homesteads; and to lay down norms in regard to employment of the 'raiyat' and restoration of the land after surface mining so as to make it cultivable later.

(i) Notwithstanding the MCDR, there is today no check in regard to the ravaging of the environment, particularly as a result of surface mining. In India, the legislative provisions in this regard are not adequate. In many countries, legislation has been enacted of late to compel mining companies to restore the environment after the mining operations are over. This is a serious matter, and many State Governments have lately been concerned about even the total destruction of forests by mining companies, both large and small. The remedy is difficult, since it may not be possible to catch the lessee after he has quitted the site at the end of the mining operation. There should, therefore, be certain statutory obligations on the lessee in regard to the restoration of the environment; and there should be a system of periodic inspection to ensure that undue damage to the environment does not occur as a result of mining operations.

6.4 Evidence received by the Committee

6.4.1 Two different types of suggestions have been made by—

(a) most of the State Governments with significant mineral resources, and
(b) the private mine-owners/mine operators,

during the evidence collected by the Committee. These are briefly indicated below.

6.4.2 The State Governments have generally pleaded that they should be given full powers as to the grant of mining leases. They have also urged greater flexibility in regard to the royalty rates, which they have suggested should be ad valorem instead of being 'specific', so that the revenue accruing to the States bears a reasonable ratio to the value of minerals to the users.

6.4.3 On the above two suggestions of State Governments, the views of the Union Department of Mines are—

(a) that the State Governments have a just claim to a better deal in the matter of royalty rates, which have generally been raised to the extent permitted by law in the past one year; however, there are certain limitations, as for instance, by way of export demand and international prices (for items like iron ore, for instance);

(b) that in the matter of grant of mining leases, there may be a case for revising First Schedule to the MMRD Act, but that the need for a national policy in regard to minerals calls for a continuation, in principle, of the present policy, which is in line with the classification of mining activity as a concurrent subject in the Constitution.

6.4.4 The main points in the representations made by private mine-owners on the problem of control over mining activity are -

(i) against "reservation" of large areas for future development by the public sector;

(ii) against the provision under the Act regarding premature termination of mining leases by State Governments;

(iii) in regard to the re-grouping of minerals under the MC Rules;

(iv) in respect of part surrender of areas, as well as surrender more than once;

(v) on the question of a time limit for disposal of mining lease applications and of revision petitions (the latter by the Central Government);

(vi) on the need for suitable provision in the Act/Rules for final orders by the Central Government on revision applications;

(vii) for reduction of time limit of 12 months to 6 months for disposal of prospecting or mining lease applications;

(viii) on the question of automatic renewal or option to the lessee for renewal of mining leases; and

(ix) for making provision in the MC Rules for supply of data collected by the GSI, IBM, State Geology and Mining Departments to the licensee/lessee on payment of charges, unless disclosure of information is not in the national interest.

6.4.5 Some of the above are somewhat technical suggestions; some others relate to problems on which some comments have already been made. Suggestions in regard to the problem of delays arising from present procedures are given below.

6.5 Procedural delays

6.5.1 Revision petitions are of two types : by applicants for prospecting/mining leases against "deemed rejection" by State Governments; and by applicants for prospecting/mining leases against actual rejection by State Governments. In regard to the latter, the Centre can and occasionally does advise the concerned State Government to reconsider the applications. Since mineral rights vest with the States, the Centre has no powers to issue a directive which has force. In regard to requests by State Government to facilitate the passing of orders beyond the stipulated date, the Centre can and generally does set aside the "deemed rejection", to enable the State Government to pass orders. In the functioning of the system, problems have arisen in the past owing to –

(a) the lack of any legal provision to prevent delays in the consideration of revision petitions by the Centre; and

(b) the failure of the State Government to pass orders within the specified time period, either on the application, or even on the further time allowed by the Centre.

6.5.2 It is suggested that, in the first place, the period for consideration of an application by a State be reduced from 12 months to 6 months. A period of 3 months

may thereafter be allowed to the Centre to pass orders on a revision petition, or to give its decision on a reference from States in regard to a mineral covered by First Schedule. In case of failure of either party, there should be provision for a tribunal to consider the case and to pass final orders within six months. This would call for amendment of the MMRD Act.

6.5.3 For non-Scheduled minerals, the procedure of "deemed rejection" and revision petitions may be dispensed with, and the matter left to the discretion of the concerned State Government. Since mineral rights vest with the States, the decision to grant a mining lease or not lies in any case with the State Government. Suitable guidelines may be issued; and the MMRD Act amended to specify minimum periods of leases for different minerals - as may be notified by the Centre from time to time. Legal provision should be made for appeal to a court of law if the State Government does not take any decision within six months from the date of application. There appears to be no advantage in an appeal lying with the Centre, when the Centre has no real authority to pass final orders. Nor does such authority appear to be necessary in the larger national interest. This also implies that all minerals of national interest should be included in First Schedule, and that revisions to the Schedule should be made from time to time, say, once every five years.

6.5.4 Royalty rate changes, as permitted under the MMRD Act today, are truly tardy, and the States have a legitimate grievance in this regard. While these rates should be determined by the Centre in the larger national interest, periodic revision in this regard is recommended.

6.5.5. Finally, control over mining activity - which deals with a "wasting asset" is inescapable; but the control should be exercised essentially with a view to proper conservation, and exploitation consistent with the speeding up of growth. Procedures should be simplified.

6.5.6 The conditions for termination of mining leases do not clearly specify the ravaging of the environment as a sufficient reason for such termination. This is a lacuna which should be corrected.

Chapter 7

ESSENTIAL COMMODITIES

7.1 Introduction

7.1.1 The economic situation in India has been characterised by sectoral disequilibria of one kind or the other for varied reasons. Vagaries of the monsoon have been a source of instability of agricultural production leading to sharp cyclical variations in the supplies of essential items of mass consumption like foodgrains and essential raw materials like oilseeds, sugarcane and raw cotton. The development process has also been characterised by unbalanced growth and sectoral disequilibria, even though the Plans have by definition been exercises in balanced sectoral growth. Slippages in project execution and programme implementation have often led to shortages of critical inputs or items of mass consumption, leading to price distortions. Effective consumer demand has generally grown at a faster pace than supplies of consumer goods leading to pressure on prices.

7.1.2 The shortages of essential items of mass consumption have frequently led to the disappearance of such items from the markets only to reappear in the black market at high prices, with consequent distress to vulnerable sections of the population. Likewise, shortages of such items as are essential to the maintenance of the economy have often resulted either in delays in project implementation or have contributed to under-utilisation of productive capacity in important sectors of the economy.

7.1.3 Government has, therefore, sought to intervene in the market from time to time to bring about a better distribution, at reasonable prices, of available supplies of essential consumption goods, raw materials and intermediate products. Such intervention has sometimes taken the form only of announcement of controlled prices, and at times taken the form of allocation of given supplies of the "essential" commodity in question on a supposedly equitable basis, in addition to the control over its price.

7.1.4 As noted in Chapter 2, after the end of the war and the repeal of Defence of India Rules, recourse to regulate commodity prices and supplies was taken by way of the Essential Supplies (Temporary Powers) Act, 1946. The life of this Act was extended by Parliament for a period of five years, until 26th January, 1955.

7.1.5 The "essential commodities" to which the Act was applied fell into two broad categories, namely,

a) coal, textiles, iron and steel, paper, etc. which are industrial products under Union control; and

b) food-stuffs, cattle fodder, etc. which are not products of such industries.

7.1.6 When the Essential Supplies (Temporary Powers) Act, 1946 expired, an Ordinance was promulgated to take effect from 26th January 1955. The Ordinance provided for the regulation of trade and commerce in and production, supply and distribution of commodities which fell within the first category referred to in the preceding

paragraph. Under Entry 42 of the Union List, Parliament has the power to regulate inter-State trade and commerce in all commodities, and the Ordinance also provided for such regulation in Section 4 thereof, but the application of that Section was limited, in the first instance, to wheat, raw cotton and sugar-cane.

7.1.7 Pending a Central law providing for control in respect of all essential commodities now falling within Entry 33 of the Concurrent List, certain State Governments had promulgated Ordinances, or taken other legal action open to them for continuing controls in respect of such commodities as could not be included in the Central Ordinance.

7.1.8 The Constitution (Third) Amendment Act made statutory provision for regulating the production, prices and distribution of essential commodities, including some commodities hitherto not falling within Central sphere. Before this Amendment, the Constitution had left the regulation of "trade and commerce" of all commodities as the exclusive responsibility of State Governments, except the products of "industries, the control of which by the Union is declared by Parliament by law to be expedient in the public interest". With the Third Amendment, Entry 33 of List III in the Seventh Schedule to the Constitution was extended to include "imported goods of the same kind as such products". In addition, regulation was extended to the following items:-

- i) foodstuffs, including edible oilseeds and oils;
- ii) cattle fodder, including oilcakes and other concentrates;
- iii) raw cotton, whether ginned or unginned and cottonseed; and
- iv) raw jute.

7.1.9 The effect of the amendment was to bring within the purview of Central legislation, in addition to the products of "scheduled" industries, the commodities mentioned at (i) - (iv) above, as well as imports. More specifically, the Constitutional amendment provided enabling powers for the enactment of the Essential Commodities Act, 1955, covering a much larger range of commodities (including the output of the agricultural sector as well as imports).

7.2 Coverage of the Essential Commodities Act

7.2.1 The Essential Commodities Act of 1955 is perhaps the most comprehensive of all legislation on the statute books today, covering all aspects (of production, pricing, distribution and stockholding, etc.) in respect of almost all commodities. Its ambit is far more pervasive than of any other legislation both in terms of its scope and regulatory provisions, as well as the punitive action that breach of orders under the Act may invite.

7.2.2 The 1955 Act specifically lists, vide clause (a) of Section 2, certain commodities or commodity groups as "essential". These are :-

- i) cattle fodder, including oilcakes and other concentrates;
- ii) coal, including coke and other derivatives;
- iii) component parts and accessories of automobiles;
- iv) cotton and woollen textiles;
- v) foodstuffs, including edible oilseeds and oil;
- vi) iron and steel, including manufactured products of iron and steel;

vii) paper including newsprint, paper board and straw board;
viii) petroleum and petroleum products;
ix) raw cotton, whether ginned or unginned and cottonseed; and
x) raw jute.

7.2.3 In addition to these, vide sub-clause (xi) of clause (a) of Section 2, the Act provides for the inclusion of -

> "any other class of commodity which the Central Government may, by notified order, declare to be an essential commodity for the purposes of this Act, being a commodity with respect to which Parliament has power to make laws by virtue of Entry 33 in List III in the Seventh Schedule to the Constitution".

This makes the coverage of the Act very wide indeed.

7.2.4 Apart from the 10 commodities/commodity groups listed as "essential" under the Act, the item "Drugs" was notified as essential in April 1956. Later, in 1974, through an amendment of the Act, the item "Drugs" was specifically added to the list of items specified in clause (a) of Section 2 of the Act.

7.2.5 Over a period of years, another 54 commodities/groups of commodities have been notified as "essential" under sub-clause (xi) of clause (a) of Section 2 of the Act. There is no difference in the content or application of the provisions of the Act to items included under the Act by legislation or by executive authority, except that the latter can be removed by the executive authority, and the former only by amendment of the Act.

7.2.6 The Act empowers the Central Government to "control production, supply, distribution, etc." of "essential commodities". Any order made under this Act to regulate production, supply, distribution, etc., is over-riding in the sense that the order under Essential Commodities Act, if inconsistent with any other order issued under any other enactment shall still be effective. The Central Government thus has not only a wide choice as to what orders it may promulgate and steps it may take to achieve its objectives, the powers the Act confers are sweeping in nature. The Act has been amended several times, and some of these amendments have been carried out with the objective of making the penal provisions more stringent.

7.2.7 Without prejudice to the generality of the above provisions, the Act authorises the Central Government to make orders for the following 1/ :-

a) regulating by licences, permits, etc. the production, storage, transport, distribution, disposal, acquisition, use or consumption of an essential commodity;

b) increasing cultivation of foodcrops;

1/ The list is an abridged version of the regulatory measures provided for in the Act, and, therefore, not in strict accord with the actual language used therein.

c) controlling prices;

d) prohibiting the withholding from sale of any essential commodity;

e) requiring a stockholder to sell any essential commodity to government;

f) regulating or prohibiting any commercial or financial transactions in foodstuffs or cotton textiles which may be detrimental to the public interest;

g) collecting any information;

h) requiring production of books of account, etc.; and

i) any incidental matters.

7.2.8 The Act provides for summary trial and imprisonment for attempting or abetting the contravention of any order issued under it. Any statement to be made with reference to an order issued under the Essential Commodities Act also implies contravention of the Act and hence invites the same penal provisions. In addition, it provides for confiscation of any property in respect of which the order has been contravened.

7.2.9 The Act provides for the delegation of powers under the Act to any officer, authority and/or State Government. In practice, the implementation of most orders under the Act is the responsibility of the State Governments.

7.3 Commodity coverage

7.3.1 As mentioned before, as of date, 65 commodities or commodity groups (listed in Annex 7.1) have come to be declared as essential. These commodities range from agricultural products required for direct consumption and as raw materials, to industrial products required by direct consumption, or as raw materials, or even as capital goods. It is obvious that the term "essential" has been given wide meaning in the context of this Act.

7.4 Some general considerations

7.4.1 Leaving out defence considerations, a commodity may be deemed to be "essential" for one of several reasons. It may be an important item in the consumption basket of the population at large or of those below the poverty line. It may be a critical item for the production of an important item of mass consumption. It may be a "universal intermediate" required for the maintenance of current productive capacity of the economy. Lastly, it may be a basic or a critical input required for the future growth of the economy in the desired direction.

7.4.2 Developments in India, during the past thirty years, provide ample evidence to suggest that imbalances of supply and demand can arise for various products from time to time. The range of products which have been characterised by such imbalances in the past has been fairly wide covering not only consumer goods, but also key industrial raw

materials. There is no assurance that similar imbalances will not occur in the future at some time or the other. The Committee, therefore, is of the view that as an enabling legislation, the Essential Commodities Act cannot be dispensed with.

7.4.3 However, the past also indicates that just because the Essential Commodities Act has been on the statute book, it has come to be used somewhat indiscriminately. On a study of various control orders issued under the Act, the nature of the commodities that have come to be regulated through these controls, the objectives which each control order was intended to serve, and the feasibility of implementing these control orders, the Committee has come to the conclusion that not infrequently, recourse to the Essential Commodities Act has been taken without giving any thought to either the "essentiality" of the item - from the point of view of control under the Essential Commodities Act - or the machinery for the implementation of the control. A major consideration in the imposition of any control has to be its implementability. The Committee has found that where controls are exercised at a few points, as for instance where production is undertaken by a limited number of large units, control over production or price is likely to be generally successful, and it is also possible to monitor the working of the control. On the other hand, where control is sought to be exercised over an item produced and distributed by the decentralised sector, the exercise of control becomes difficult. The list of commodities which have been brought under the ambit of Essential Commodities Act does not reflect that such considerations, as also attention to the machinery of control, have formed part of the deliberations or examination of the relevance of the proposed control order while listing a commodity as "essential" under the Act, or while issuing a specific control order in regard to it.

7.4.4 The Committee feels that before any commodity is declared as "essential" under the Essential Commodities Act, it is imperative, first, to define the objectives clearly; secondly, to identify the section of the population for the benefit of which the control is to be exercised; and finally, to provide for a machinery to ensure that the intentions behind the regulation are realised in full measure. In short, there has to be considerable "home-work", and examination of the need for control, the feasibility of its implementation and the machinery of implementation, before the sweeping powers conferred on the executive authority under the Act are brought to bear on any commodity.

7.4.5 In general, it is only if a commodity is in short supply that it is usually declared as "essential". If a commodity is in short supply, it is almost certain that it will be available "at a price", to those persons who can afford the price. As a general principle, therefore, if the price of a consumer item is to be controlled under the Essential Commodities Act, it is necessary that a proper machinery for distribution is available to ensure that each consumer gets his entitlement of the scarce commodity. Also, as a general principle, co-ordinated management of not only demand but also of supplies is necessary, to ensure that a long term imbalance between demand and supply does not persist.

7.4.6 As far as intermediate products are concerned, it has to be recognised that the demand for these arises as a derived demand. Controlling the price of an intermediate product should, therefore, lead to stability in the supply price of the final product(s). However, the price of the final product will be a function of the demand for and supply of that item. If there is a spurt in the demand for a particular final product which has generated increased demand for the intermediate product, controlling the price (and distribution) of the intermediate product alone will not meet the objective of policy, if the

objective is the stabilisation of the price of the final product.

7.4.7 There are, of course, instances where an intermediate product with multiple uses can be channelled to the production of selected final products which are required for mass consumption to the exclusion of others. Such regulation can succeed where the control points are few, i.e. where the intermediate products can be successfully allocated and their use can be properly monitored to avoid diversion.

7.4.8 There is yet another point which has to be borne in mind. In a mixed economy, private investment decisions are based entirely on estimates of current and prospective profitability. Relative prices affect profitability markedly. Public investment decisions, in theory, need not be based on relative market prices. In practice, market prices do enter into the evaluation of investment projects because the basis of correction factors (in particular, the "shadow prices" adopted in order to reflect social costs and benefits) are not available for the whole range of inputs and outputs. There is, therefore, a special distortion which arises here. Control over the prices of essential items without a similar control on inessential items, has the effect of bringing about distortions in investment allocation in the economy, leading to more investment in non-essential industries. It is therefore, necessary that deliberate efforts are made to increase the capacity for the production of essential items in short supply.

7.4.9 There are some intermediate products (or raw materials) which go as inputs in a number of industries manufacturing a variety of products. An increase in the price of such an intermediate product is likely to have a multiplier effect leading to an increase in the price of several other items. Since stability of the general price level is an important consideration, the prices of such "universal intermediates" have to be controlled. Such a control should, however, be used only as a short-term expedient, and the adequacy of supply over the longer run should be ensured.

7.5 Review of working of the Essential Commodities Act

7.5.1 An evaluation of the Essential Commodities Act should logically cover the need for such an Act, the expanse of its scope, the sweep of its regulatory powers and the deterrent effects of its penal provisions. Such an evaluation would occupy a volume by itself, particularly because, while the Act is a Central piece of legislation, various control orders under the Act are issued by both the Centre and the States, and in any case, the implementation and monitoring of the Act falls very largely within the purview of the States (and indeed, the local authorities). Also the review should, properly speaking, take note of the relationship which the Act generates between the Central and State Governments, in the light of List II in the Seventh Schedule to the Constitution and the Constitution (Third) Amendment Act. The present review, however, has been largely confined to the relevance of listing as "essential" commodities that have been brought under the purview of the Act, and the executive orders that have been issued from time to time.

7.5.2 Before taking up these issues, it may be reiterated that in India today, the Essential Commodities Act is a necessary piece of legislation which should continue on the statute book so that in case of need, appropriate action can be taken to regulate the trade and commerce of any essential commodity in short supply. Apart from considerations already indicated in para 7.4.2 earlier, in the absence of such a Central legislation, it is likely that different States will, in case the need arises, regulate a commodity

falling in the States jurisdiction, through independent legislative action. It is possible that these different regulatory provisions may conflict with each other or have inter-State or all-India implications. Since the Essential Commodities Act enables the Centre to keep administrative control over, and create uniformity of practices in the various States, in regard to commodity control, the legislation is felt to be necessary. The Committee would therefore like to underline the importance of continuous consultation between the Centre and the States to ensure that any orders issued under the Essential Commodities Act by either conform to overall national policy goals.

7.5.3 As noted earlier, in addition to the items initially covered under the Act, various industrial products have been brought, from time to time, under the purview of the Act, and as many as 65 items are today listed as "essential" under the Act. These range from an imprecisely delineated item like "iron and steel, including manufactured products of iron and steel", to precisely and uniquely identifiable commodities like "matches" or "tea". Similarly, the list covers items which are clearly not essential under any meaning of the term, as for instance cinema carbon.

7.5.4 There are three issues involved here. The first and foremost is : some criteria should be clearly laid down, for deciding on the "essentiality" of an item before it is covered under the EC Act. Secondly, it would be desirable to define a "commodity" more precisely. Finally, considering the sweeping nature of the powers vesting with the executive authority under the Act, the coverage should be reviewed from time to time as a regular and automatic feature of the Act.

7.5.5 The Committee is of the view that an item should be deemed suitable for inclusion under the Essential Commodities Act only if control over its price and distribution is feasible and if any one or more of the criteria given below are satisfied. These are -

a) that it is a mass consumption item which people cannot do without, or

b) that it is an important raw material or component going into the production of such a mass consumption item, or

c) that it is a universal intermediate which goes into the production of a wide range of products.

7.5.6 Not all items at present covered under the EC Act could be deemed to satisfy the criteria /(a) or (b) or (c)/ indicated above, and some concrete suggestions in this regard are made later.

7.5.7 There can be arguments both for and against the use of generic terms for some of the commodities that have been included in the Act, rather than defining each product specifically. It has been stated that the mere fact that a generic item has been brought under the purview of the Act, does not mean that all the products coming under the generic term need in practice be regulated; and that there is no harm if a commodity has been defined by its generic name in the Act so long as the particular product sought to be regulated through the Act is precisely defined in the control order specifically issued. Paper is an example where the present control extends only to the production of cultural varieties of paper with a view to ensuring an adequacy of white printing paper

required for the student community. However, the possibility of control at short notice remains in respect of all varieties of paper, including newsprint.

7.5.8 On the other hand, once a "commodity" finds a place in the list of essential commodities in its generic form, the executive authority has a very potent regulatory measure in its armoury, which can be used somewhat indiscriminately to cover up some of its own failures and shortcomings, and lacunae in politics. As a general principle there is no advantage, and, therefore, no reason why a commodity in its generic form should be included in the Act, since a product of an industry in the First Schedule of Industries(Development and Regulation)Act can be regulated through this Act, at any point, at short notice, through a notification by the executive authority. Thus, the inclusion of items like "iron and steel", "drugs", "cotton and woollen textiles" and "component parts and accessories of automobiles" in the Essential Commodities Act may not really be necessary unless some specific order is proposed to be issued for any of these items. In regard to other items also there is need for precision. An item like "foodstuffs......" is so wide as to include products like nutritive foods including condiments, pickles, jams, etc. The question that needs to be considered is whether the Essential Commodities Act is the proper control mechanism for ensuring the attainment of diverse desirable objectives, such as quality control (for processed foods).

7.5.9 The Committee also finds that once an item has been declared as "essential" it remains so indefinitely. A basic recommendation of the Committee, applicable for all controls, is that no specific commodity control should be valid for longer than three years, and even the statutes should come up for review once every five years. The Essential Commodities Act has now remained on the statute book since 1955, and a large number of items listed as essential by executive authority have remained so since periods ranging from as far back as 1956. The Committee feels that all items currently listed as essential should come up for review, as part of the review of the legislation, and that items brought under the list by executive authority should get automatically knocked off the list of essential items three years from the initial date, unless specifically renewed. The Committee would later make certain specific recommendations regarding the items which may be deemed to be essential as of today.

7.5.10 In respect of a number of items covered under the Essential Commodities Act, no use has ever been made of the Act to regulate either their production or distribution or prices. Also, for some items, control orders issued earlier have since been rescinded. Annex 7.2 indicates the items covered by the Act in respect of which no control orders are in operation as of today. It would appear that some of these commodities may have been declared as "essential" either in expectation of a shortage, or that by the time these were so declared, the need to promulgate orders had ceased to exist. On the other hand, in regard to a number of items covered by extant orders under the Act, the use of an instrument like the Essential Commodities Act, with its sweeping and penal provisions, is not justified.

7.5.11 For many items, the imbalance between demand and supply may have prompted the executive authorities to declare a commodity as essential at some point of time. In the meantime, with a change in the underlying conditions, the need for the control disappears. To take one example, in the case of dry batteries, an item declared as an essential commodity, capacity has increased from 289 million numbers in 1966 to 1291 million numbers in 1977. The demand for dry batteries has not grown to the same extent, and most units are operating significantly below rated capacity. Production of

dry batteries at 466 million in 1977 was less than 40 per cent of the installed capacity. Quite apart from the basic question as to whether such an item should be at all considered to be essential, once an item is included under a control order, the concerned authorities appear to pay no further attention to it.

7.5.12 The tendency to keep control powers for an unknown eventuality comes natural to the administrator. And so, the control remains long after the need is over. In the case of electric bulbs the capacity has increased from 65 million numbers to 196 million numbers over the period 1966 to 1977. In neither of the two areas listed is there any shortage today, nor any reasonably apprehended in future. And yet the items remain on the list of "essential" items.

7.5.13 Even where there may temporarily appear to be need for some control, exercise of control may not be at all feasible, as for instance, for an item like cattle fodder, which is listed as one of the original items included under the Essential Commodities Act.

7.5.14 It has been suggested to the Committee that it would be desirable for Government to retain residuary powers (to issue control notifications as and when necessary) in respect of items on which there are no specific control orders or notifications as of today, and that no harm is done by keeping such items on the list of essential items, so that control orders can be quickly issued in case of need. In theory, this sounds reasonable, particularly since there are no extant notifications in regard to many items. However, two problems arise in this connection. First, it is not clear what purpose is served by including some of these items under the Essential Commodities Act. As indicated earlier, for all manufactured items, control orders can be issued by executive authority without recourse to separate legislation and if a notification is to issue in regard to specific control to be exercised for such an item, the notification can first bring the item under the purview of the Act, and then indicate the nature of the control. Subordinate legislation of this type would attract greater attention of Parliament than what may appear to be a routine control order relating to an item already declared as "essential". Secondly, once an item has been listed as essential, States can and do ask for delegated authority (under the Act) to issue control notifications. And though the State Governments are supposed to consult the Centre before issue of control notifications, they do not always do so; and the Centre is at times not even informed about such notifications issued by States.

7.5.15 The Committee finds that although not very frequent, there are instances of control orders having been issued by State Governments of which the Centre is not even aware. This is clearly undesirable when the powers for so doing stem from Central legislation.

7.5.16 The danger of issue of such orders unilaterally by one State, without adequate consultation with the Centre or with other concerned States, can be briefly illustrated in regard to coir. In September 1973, the Government of India issued the Coconut Husk Control Order (under the Essential Commodities Act), regulating the purchase, sale, storage, retting and processing of coconut husk in the State of Kerala. However, the Government of Kerala issued a more drastic order, entitled the Kerala Coconut Husk and Coir Fibre (Export Control) Order, in November 1974, under the Defence of India Rules, 1971, restricting the export of husk and fibre from Kerala. This Order was followed by a number of other Orders - all under the Defence of India Rules - the validity of which has now

expired. The point of relevance is that the Kerala orders only aggravated the problems of the workers in the coir industry in Kerala because the Governments of Tamil Nadu and of Karnataka did not find the Kerala Government orders to be suitable or appropriate for Tamil Nadu and Karnataka respectively, and the Kerala Government orders, instead of helping the coir workers in Kerala, recoiled adversely on them. This is also borne out by the evidence tendered by the Government of Kerala to the Committee, the problem arising because of disparate regulations in neighbouring Tamil Nadu and Karnataka. The above example highlights the need for proper co-ordination of policy and action, among the Centre and all concerned State Governments so that the interests of some States are not jeopardised by action taken by any one of them.

7.5.17 There are, in short, many items which, for one reason or the other need not continue to be covered under the Essential Commodities Act. For some, even though there may exist need for control, there exist other enactments under which the desired control can be exercised more purposefully, and in a properly co-ordinated manner. A list of items which, in the Committee's view, may be removed from the list of "essential items" under the Essential Commodities Act, is given at Annex 7.2.

7.6 Control orders issued under the Act

7.6.1 The substantive element of control over any item is contained in the notifications that are issued from time to time, under the broad framework of control legislation and control orders. In practice, many problems arise in this connection. These are -

a) There is first a multiplicity of control orders issued under the Essential Commodities Act on the same commodity. For example, in case of petroleum products, there are four orders issued in regard to regulation of various aspects of production, distribution, price,etc., of different products. Secondly, and more importantly, amendments to earlier notifications are issued from time to time, but the (final) extant orders are seldom brought out in an updated manner. As a result, for some items - e.g. for textiles, as would be seen later - one would have to read a very large number of different notifications, in order to even know the extant law. Inevitably, the orders are so complex and detailed that it is difficult to understand them. Even the executive branch of Government is sometimes not fully aware of all the extant orders on many items, especially the relatively unimportant ones, which lie forgotten and ignored.

b) Notifications on the same item are issued both by the Centre and the States, and the Centre does not always know - or keep a record of all the notifications/orders issued on any item.

c) All orders and notifications - which have to be vetted by the legislative Department of Government - are couched in such legalistic jargon that it is impossible for the common man to comprehend the law. In fact, this leads to the emergence of a whole group of professional "advisers", to assist those who are concerned. Unfortunately, only the large producers can afford such advice, and both the small producer and the small retailer find it difficult to avoid contravening one provision of the law or the other unwittingly.

d) As far as the retail trader is concerned, there are far too many different control orders for different items and too many separate licences required, registers to be maintained and returns to be filed. The detail in which daily stock registers have to be maintained - e.g. in respect of vanaspati or edible oils, by way of number of 1 Kg tins, 2 Kg tins, 4 Kg tins and 16 Kg tins separately, every day - make for avoidable accounting work and a potent source of harassment of the retail trader by the inspection staff of the civil supplies department. The Committee has been informed that for storing castor oil, three separate licences are required in some States, one under the Vegetable Oil Products Control Order, one under the Drugs Control Order, and the third under an order issued by the State Government pertaining to storage of inflammable materials. The types of registers required to be maintained are cumbersome and expensive to adhere to in practice, with the result that this provides an opportunity for harassment and graft. The retail trader becomes used to greasing the palm of a large number of inspectors of diverse departments.

7.6.2 During the evidence and hearings that the Committee had all over the country, the above has been the most common complaint of small producers and small traders. The wide powers conferred upon the executive authority under the Essential Commodities Act, and the flimsy, often unimportant and irrelevent issues relating to which such powers are exercised, make the law draconian in its impact.

7.6.3 Annex 7.3 gives a sample of the number of licences required to be taken out by a retailer; and the type of stock registers a retailer is required to maintain as relevant for some typical products in one or two States. These lists are illustrative, but they serve to indicate the complexity of the law, and the somewhat pointless set of orders issued (or documentation required) in respect of ordinary economic activity.

7.6.4 Annex 7.4 gives the list of Control Orders issued under the Essential Commodities Act by the States - to the extent such information could be compiled by the Committee, valid as of 31.10.1978. The Committee made an earnest attempt to compile a fully comprehensive list of extant control orders, but there is no guarantee that the list presented here is complete.

Chapter 8

IMPORT AND EXPORT

8.1 Introduction

8.1.1 The Indian economy has been characterised by an endemic balance of payments disequilibrium extending over more than two and a half decades of the post independence era. It is only over the last few years that the position has changed from almost persistent deficit on current account to one of surplus. The major part of the deficit in the past has been on trade account, imports exceeding exports. This has been a major factor in the formulation of import/export policies in the past.

8.1.2 Import control was first introduced in India in May 1940, in exercise of the powers conferred under Rule 84 of the Defence of India Rules. The sole objective of this measure at that point of time was to regulate available foreign exchange and the limited shipping space available for the war effort and for essential civilian supplies.

8.1.3 As the war ended and with it the Defence of India Rules lapsed, the Import Trade Control was continued under the Emergency Provisions (Continuance) Ordinance, 1946. The Ordinance was later replaced by the Imports and Exports (Control) Act 1947, which took effect from March, 1947.

8.1.4 The partition of the country resulted in most of the areas growing food, raw cotton and raw jute going to Pakistan, while cotton and jute manufacturing industries were located in India. Besides food, India had, therefore, to import raw cotton and raw jute on a large scale. The resultant heavy import bill impinged on the foreign exchange position and led to more thorough going screening of import items.

8.1.5 The period between Independence and the commencement of planning can be divided into two sub-phases, 1948-49 and 1950-52. The first sub-phase was characterised by a discriminating and a restrictive policy towards the dollar area. The devaluation of the rupeee in September, 1949 gave a stimulus to exports which led to the easing of the balance of payments position. Although import controls were tightened in respect of some of the commodities, a somewhat liberal policy was adopted in respect of machinery, industrial raw materials and foodgrain imports.

8.1.6 The first Plan period was characterised by a generally liberal approach to import licensing. The period saw a sharp increase in the level of imports towards the end of the Plan period.

8.1.7 The Second Five Year Plan (1956-61) heightened the tempo of development, with greater emphasis on rapid industrialisation of the country, particularly, the heavy industry sector. The import of capital goods, raw materials, metals, spares and components, etc. increased sharply. The combined effect of liberal licensing policy during the first Plan and heavier imports for development purposes in the second Plan led to a foreign exchange crisis within almost a year and a half of the second Plan i.e. by 1957-58. It, therefore, became necessary to apply drastic cuts not only on the import of non-essential items, even the Plan was cut, and imports were geared to meeting the requirements of only the "core" of the Plan, at that time defined as the three steel plants

of Rourkela, Bhilai and Durgapur and the transport and other inputs required for these. The year marked, in a sense, a watershed in the restrictive import policy. Over a period of more than a decade and a half thereafter the tight import policy continued with minor changes from time to time, with a brief experiment in liberal import policy after the devaluation of the rupee in June 1966.

8.1.8 During the Third Five Year Plan, the import policy continued to be essentially restrictive. The Chinese War in late 1962 introduced further strains in the economy. As a result, specific provision was made for the first time in the policy for the development of export industries.

8.1.9 The inflationary tendencies which developed after the Chinese War, led gradually to increasing uncompetitiveness of Indian exports, tightening of imports, and the gradual evolution of a system of import entitlements tied to export performance. The exchange rate of the rupee was steadily getting out of line, leading to an increasingly complex import and exchange control system.

8.1.10 Following the devaluation of the rupee in June 1966, and massive external assistance by way of both bilateral and multilateral funds for non-project imports, the import of raw materials, etc. was significantly liberalised. However, the widespread drought in 1965-66 and 1966-67 had reduced purchasing power, and there was little sign of industrial revival as there was also a slackening of investment during the three annual Plan years of 1966-67, 1967-68 and 1968-69. As a result, the expected resurgence of imports of industrial inputs did not occur, though there were sizeable imports of foodgrains, to meet the needs of the public distribution system. This was the first indication of a constraint on the demand for imports, consistent with protection to nascent and newly emerging domestic production capacity, a feature of the economy which has come to the surface again in recent years. By 1968-69, the pressure for import substitution had again mounted, leading over the next few years to increasing import bans.

8.1.11 The import policy during the Fourth Five Year Plan was modified to give a further slant in favour of export production, import substitution and imports through public sector agencies. Emphasis was also laid on the expansion of employment opportunities and development of small scale units in the context of Government's socio-economic objectives. There was a re-arrangement of priorities after the oil price hike of November, 1973, but the broad frame of policy continued on lines indicated earlier.

8.1.12 During the Fifth Five Year Plan, commencing from 1974-75, overriding preference continued to be given to provide imported inputs to industry in order to strengthen the base for export production. A more liberal policy for import of maintenance spares, added facilities for research and development, entitlement of non-priority units to earn priority treatment through export performance of 20 per cent of production, continuance of the scheme of compulsory export obligation and the continuance of the dominant role by public sector agencies in import trade, were some of the significant features of the import policy during the Fifth Five Year Plan.

8.1.13 As the years proceeded, re were two developments which made for a marked difference in the external payments situation. First, world inflation overtook and exceeded the rate of inflation in India by 1975, which made Indian exports increasingly more competitive abroad. Secondly, with large developmental outlays undertaken by the

Middle Eastern countries, there was increasing use of Indian experts, technicians and labourers in these countries, and inward remittances from them started swelling. The 'floating' of the rupee to a limited extent, and fixing of the exchange rate in line with a basket of currencies also made a noticeable difference to the export/import picture. By 1976-77, attention of the policy makers was already focussed on how to make use of increasing foreign exchange resources to spur development. The improved food supply within the country accentuated the problem, and the emphasis shifted from import control for foreign exchange reasons to import control for spurring development.

8.1.14 The import policy for 1977-78 marks a departure from the past. In the context of inelastic supply of foodgrains and other agricultural products, a small industrial base and, more particularly, a precarious foreign exchange reserves position the accent of policy had, in the past, inevitably been on denial of imports even to the point of hurting some sectors of the economy. With the structural shift that is in evidence, the import policy since 1977-78 has been reoriented to serve the genuine needs of all sectors to the full.

8.1.15 The import policy for 1978-79 formulated on the basis of the recommendations of the Alexander Committee carries forward the above policy of import liberalisation and simplification of procedures significantly. The following points may be noted:—

(a) Procedures have been drastically simplified, and the policy laid down in simple, unambiguous terms.

(b) Capital goods, intermediate goods as well as consumer goods have been classified into three categories - banned, restricted and open. All items not specifically banned or restricted are now freely imported, under the OGL.

(c) No distinction is drawn in regard to licensing requirements, or facilities and procedures, between private and public sector enterprises.

(d) Import entitlements against exports have been restricted to requirements for export production by tightening up the "list of goods" available for import under the Registered Exporters Policy.

8.2 Controls over import/export

8.2.1 The control over foreign trade is exercised under the Imports and Exports (Control) Act, 1947, as amended in 1976, the latest orders issued under the Act being the Imports (Control) Order of 1955 and the Exports (Control) Order of 1977. These two Orders lay down the operative rules and regulations for the exercise of control over foreign trade. The procedures of import/export trade control are clearly laid down in the "Handbook of Import - Export Procedures".

8.2.2 For a long period, import policy used to be framed on a half-yearly basis commencing April and October, changes being made on the basis of availability of foreign exchange. Of late this has been an annual policy.

8.2.3 While the policy, as laid down by Government, is announced by the Chief Controller of Imports and Exports (CCI&E) from the Headquarters Office in

New Delhi, the actual issue of licences is delegated to 'port' licensing authorities - branches of the CCI&E - in a number of important trading centres like Bombay, Calcutta, Madras, Cochin, Ahmedabad etc.

8.2.4 The other control over foreign trade pertains to export quality. The Export (Quality Control and Inspection) Act, 1963 was introduced for quality control and inspection of export shipments. The Act empowers the Government to notify commodities to be brought under compulsory quality control and pre-shipment inspection. An Export Inspection Council was set up under the Act in 1964 to advise Government on specific measures for enforcing quality control and inspection. As of now, the Council is the apex body for controlling all activities of compulsory quality control and pre-shipment inspection of export.

8.2.5 Since the early seventies, the canalisation of import/export trade can be deemed to be a measure of administrative control over the import/export trade, insofar as the quantum of import need not be formally controlled, and yet controlled administratively under this system.

8.3 Appraisal of the policy

8.3.1 As indicated earlier, the changes in the Import Trade Control that were brought in the policy for 1977-78 and more particularly for 1978-79 on the basis of the findings and recommendations of the Alexander Committee, have introduced a completely new thrust in regard to import policy. These changes, as also the fairly detailed examination of import policy undertaken by the Alexander Committee, have made the task of this Committee considerably simpler. It is no longer necessary or relevant to attempt a critical appraisal of the policy as it existed and was operated till 1978-79. The Committee generally agrees with the approach adopted in the policy for 1978-79, and would only like to briefly comment on those aspects of the system which had either escaped the notice of the Alexander Committee or have surfaced after the introduction of the new policy. In addition, the Committee would like to suggest such modifications to the extant policy as would make it more responsive to the needs of the economy and minimise procedural difficulties and reduce delays still further.

8.3.2 The basic issue in regard to import trade control is the optimality of the nature, extent and method of operating such a control, taking into account the changes that have taken place over the last 30 years, not only in India but all over the world. There are, in this connection, two distinctly opposite developments. As the Indian economy gains in strength, it should rightly move towards a liberal import/export policy. The Committee, however, notes that in this connection, a basic fact is often lost sight of, namely, that international trade is characterised by a high degree of imperfection. In fact, protectionist policies, of relevance to developing countries, have come to be resorted to increasingly and in varied forms, by many developed countries in recent years, in the wake of a regime of currency floats. Cartelised selling and buying, quota restrictions, linked or triangular deals etc., have become pronounced features of international trade lately. Indeed, there has been a general slide back in the last two years or so in the movement towards free trade. While the accent of policy has to be on liberalisation, there is need for continuing and cautious evaluation of emerging trends in international trade policies and practices the world over and their impact on Indian trade.

8.3.3. The specific issues that the Committee would wish to comment on are the following:—

(i) Stability in policy both in content and its duration.

(ii) Approach to classification of commodities into various categories - banned, restricted, free, etc.

(iii) Licensing procedures.

(iv) Canalisation of imports.

8.3.4 It is a recognised canon of good economic management that all policies should have some degree of stability, so that those who are affected have sufficient time to adjust to the new situation and to reformulate their activities accordingly. The present practice of a year to year policy does not allow much time for this. Nor does this allow enough time to the policy formulators for the appraisal and formulation of the new policy. The Committee would like to reiterate the recommendation of the Alexander Committee that the life of import and export policy should be longer than one year as at present. It may, of course, be necessary to occasionally modify an existing policy even before it has run its course. A banned item may have to be permitted for import if the output expected from domestic producers does not come up. Nonetheless, as a general matter, the ideal time period for policy has to be long enough to allow for adjustment but not so long as may delay changes necessitated by structural changes in the economy. The Committee, therefore, endorses the view that the import policy should have a life of three years.

8.3.5 Apart from the duration of the policy, there are two other issues of a somewhat similar nature. Thus, although the import policy for a year is laid down, seemingly, in a comprehensive manner, very frequent modifications to the policy are made throughout the year. For example, during the year 1976-77, as many as 128 notifications were issued after the announcement of the policy. Thus, on an average, ten notifications amending the policy were issued every month during this period. Although the import policy for 1978-79 made a big effort at liberalisation of policy and simplification of procedures, the need to issue amendments increased to such an extent that in December, 1978 a new policy book had to be brought out. The Committee has already noted that it may, on occasion, become necessary to amend a policy mid-way through a policy period. But such modifications should be the exception rather than the rule; and should not be introduced casually, but only after very careful examination by an Import-Export Policy Board specially constituted in the Commerce Ministry for this purpose.

8.3.6 Apart from frequency of amendments, there is today another source of uncertainty. This stems from the fact that amendments in regard to a particular objective of policy are introduced many times during the same year. Annexes 8.1A and 8.1B respectively give: (a) a broad classification of the public notices issued by the import control authorities, by purpose or category of amendment; and (b) a classification of the actual notices issued in 1976-77 and 1977-78 against each of these objectives. It would be seen that there still remains, at the administrative level, the tendency to rush in with policy amendments; and this happens because policy is frequently announced without careful assessment. This also encourages pressure groups and vested interests to press for policy changes to suit their book and not the larger national interest.

8.3.7 A feature of the administrative system in implementing import control is the issue of General Licensing Instructions (GLI) by the CCI&E to all licensing authorities every year, giving detailed instructions in regard to specific areas of policy.

These instructions, however, are today not confined to procedural issues - as they ought to be - but also to substantive issues of policy. The actual issue of licences by the regional licensing authorities does not commence till the receipt of the GLI which is frequently delayed. Frequent amendments in policy and changes in instructions create uncertainty, on the one hand, and delay in the issue of licences, on the other. The Committee recommends that substantive policy should not be left to be formulated in the GLI.

8.3.8 The Committee, therefore, recommends that with the proposed change in the duration of policy from one to three years, the Government should now bestow more time and thought to the planning of policy so that frequent changes in substantive elements and procedures are avoided.

8.3.9 The policy for 1978-79 has sought to regulate imports through a threefold commodity classification. Three lists indicate the items which are (a) banned, (b) restricted and (c) on the Open General Licence (OGL) i.e. freely importable. The OGL list stipulates for many items the condition that the item would be imported only for direct use by the importer. This is known in the import control jargon as the Actual User (AU) condition for imports under the OGL.

8.3.10 The Committee is of the view that the AU condition for imports under the OGL is neither necessary nor desirable. Apart from providing scope for harassment by the customs authorities, it creates difficulties for small importers in up-country towns, who have to prove to the customs authorities their bonafides as actual users. Secondly, this condition creates a major difficulty for the trade to import for stock and sale purposes. There are many items, particularly raw materials and spare parts, etc., which are best imported by the trade. Small industries cannot import directly and normally depend on the trade. The mere fact of OGL is likely, in respect of such items, to ensure competition, and to make such items available cheaply. An AU condition for such imports rules out such economies in import. It has been pointed out to the Committee by the concerned Ministry that OGL for actual users is only permitted for items for which there is danger that speculative over-import may affect indigenous production of that item. The Committee is not convinced by this argument. Where indigenous production may be threatened, the remedy is either to put the item on the restricted list or put its import duty sufficiently high to protect indigenous industry. The AU condition is not only unnecessary but is particularly onerous for small scale industry.

8.3.11 In regard to restricted and banned lists it has come to the notice of the Committee that the items that are included are not always specified distinctly. Imprecision in defining a product can defeat the objective of policy. Interpretation as to whether a particular item is banned/restricted becomes subjective and discretionary, giving rise to scope for harassment and corruption. The Committee would not wish to go into details of import policy in this connection, but would merely cite one example of how this problem arises. For instance, the item "leather processing and finishing chemicals............" which appears in Appendix 5, as item 142 of the Import Trade Control Policy for 1978-79 (Vol. I) can be described only as a catch-all nomenclature.

The item has been banned in 1978-79, because one or two of leather processing chemicals are now available indigenously. But the ban has had adverse impact on the export of finished leather, in value terms, significantly more than likely savings in the import bill for leather chemicals. To avoid such difficulties, before imposing a ban or restricting the import of any item, the correct approach would be to assess the indigenous demand, including that for export production, and supplies of each item at a micro level. In any case, a 'generic' classification can create more problems than it is likely to solve. The present aggregative classification does not facilitate such fine tuning in respect of import bans/restrictions. In short, the Committee feels that the banning of an item, or making it wholly free for import should be preceded by a very careful cost/benefit analysis; and since this may not be always possible, the tariff mechanism should be relied upon.

8.3.12 The Committee is of the view that lists of banned and restricted items should be continually reviewed. A blanket ban, for all times to come can lead to complacence and high cost of production. Indian industry has to be exposed, no doubt gradually, to international competition so that over-protection does not lead to inefficiency. A periodic review, therefore, would be desirable to see whether an item should not be removed from the banned list. The Committee has already recommended the constitution of an Import - Export Policy Board for such continuing review. The Committee feels that protection to domestic industry is best afforded through an appropriate level of tariff.

8.4 <u>Canalisation of imports</u>

8.4.1 The objectives of canalisation have been many and varied. Although Government has not spelled out in one place, the imperatives for bringing in a large volume of imports under public sector management, the debate preceding the setting up of the State Trading Corporation of India, the first public sector canalising agency, was long and intense. The objectives of policy which then prompted the Government, and which were enlarged later, may be summarised as follows:—

(i) To eliminate malpractices like over-invoicing of imports.

(ii) To be able to bulk import requirements and improve bargaining power.

(iii) To carry on trade in accordance with trade plan arrangements, with State agencies of centrally planned economies.

(iv) To develop and diversify procurement sources, so as to avoid dependence on a few agency arrangements.

(v) To ensure regular and adequate supplies of essential commodities eliminating scope for artificial scarcities.

(vi) To provide, especially to the small consumer, a degree of stability in prices of essential imported raw materials, particularly where the international market for such raw materials fluctuates very widely.

(vii) To ensure coordinated approach to procurement of large value bulk items, taking into account financing plans such as free foreign exchange,

bilateral rupee trade and aid resources tied to purchase from donor countries.

(viii) To implement Government's pricing policies, either in relation to pooling or in order to mop up surpluses that might otherwise be collected by intermediaries.

8.4.2 The instrument of canalisation has been reviewed and commented upon from time to time by the Parliamentary Committees like Public Accounts Committee, the Estimates Committee and the Committee on Public Undertakings. In addition, official and non-official bodies have also gone into canalisation policy and operations, either as part of a review of import trade control policy generally, or the canalisation aspect of the policy specifically. Two bodies have recently looked into the objectives of canalisation and reviewed its role in the light of changes that have taken place. The Alexander Committee looked at canalisation in the broader context of import and export trade control policies and procedures. A team of experts from the Indian Institute of Management, Ahmedabad has independently looked at the objectives, role and the connected practices and procedures to ensure that the state trading organisations subserve the objectives as efficiently as possible.

8.4.3 Apart from the representations made to the Committee by industry and trade, the Committee had had the benefit of these reports based on more detailed study. The Committee has also had evidence of the canalising agencies as well as the users who were supposed to benefit from those policies. The Committee has come to the conclusion that some of the objectives of canalisation are unquestionable, but that in actual operation, the policy of canalisation has not led to the gains expected, particularly in respect of certain categories of import/export, for diverse reasons.

8.4.4 Canalisation does, for example, help in bulk imports and also enables long-term contracts to be made for items for which a direct link with producers can be established. Again due to bulking, countervailing bargaining strength is provided by canalisation against cartelised selling. However, in such of the items where these advantages are not available, either because the product characteristics do not permit of standardisation, or else the international market structure is diffused and diversified, canalisation acts as a drag to actual users in such instances, partly because every monopoly organisation has an inherent tendency to complacence, and partly because the purchase procedures of a Government organisation preclude risk taking and lead to avoidably slow responses to changing international market conditions.

8.4.5 There are a number of items suitable for bulking and therefore for canalisation. However, a single import agency for all these items is not appropriate, particularly because the users of the import may be small scale units scattered all over the country, which a single central canalisation agency is not able to service efficiently. For such items, State Government agencies - be they State Industrial Development Corporations or any other such agencies as the State Governments may designate - should be allowed import facilities, so that they can order bulk imports to meet the raw material needs of small scale units.

8.4.6 The Committee recommends that the list of canalised items should be reviewed more frequently, criteria for canalisation laid down, and such of the items as do not offer any advantage in the matter of canalised import/export, should be decanalised, taking into account the structure of the international market. In this connection the Committee notes that the Government had already decanalised a number of items - the number of canalised items having been reduced from 163 in 1977-78 to 65 in 1978-79.

8.5 Export trade control

8.5.1 The Committee feels that basically the structure of the Export Trade Control should be the same as that of the Import Trade Control. For example, here also, the control can and should be operated through three lists - a banned, a restricted and a free list. However, the lists would need to be reviewed from time to time to take into account the structural changes, if any, necessitating the shifting of a commodity from one list to another.

8.5.2 The Committee has received a number of complaints about the present export inspection procedures and the services rendered by agencies involved with this. The basic purpose of pre-export inspection is to ensure that exporters maintain quality of goods in consonance with contractual commitments. Certificates issued without proper inspection, analysis and evaluation lead to disputes when the goods at the importers end do not measure upto the quality certified by an export inspection agency in India. This, apart from harming Indian export effort, creates difficulties for the exporters through the withholding of payments, etc. The Committee recommends that where export inspection involves the charging of a fee - as is customary in respect of several export inspection agencies - one way of ensuring that export inspection agencies discharge their functions properly is to prescribe that any liability arising out of quality disputes should be borne by the inspection agency and not the exporter, as at present.

8.5.3 The Committee has received a number of complaints from various persons and organisations on certain specific aspects of Import and Export Trade Control policy. A frequent complaint is that items are allowed for import for some time, banned next, and again relaxed or made more stringent in a somewhat arbitrary manner. The Committee has already had occasion to comment on this problemn in general terms earlier. The Committee feels that there should be a proper assessment by the Import/Export Board of indigenous production, consumption, the need for imports of such items where domestic production is expected to fall short of domestic requirements, the quantum of imports which may be necessary and the agency which may be allowed to import. Likewise, for export, there should be a proper assessment of domestic production of a commodity and the domestic demand for it.

8.5.4 The Committee feels that export plans should be drawn up in consonance with, and dovetailed into overall production plans. In other words, there is need for proper management of production, imports and exports, to meet the multiple objectives of policy. The present approach to the question of exports gets coloured because of the conflict of objectives. Apart from the objective of increased exports, there arises on occasion a conflict between the interests of the consumers and producers. The consumers are interested in adequate availability and in price stability. The producers, particularly of agricultural products, have to be given an adequate return which can be sustained during periods of bumper harvest. This conflict usually gets resolved in an ad hoc manner without proper evaluation of facts and figures. The Committee feels that attention should be given to expanding the production base of items which offer possibilities of steady export growth, and therefore, of expanding the income of the farming community. Hasty bans on export followed by a glut in production discount the possibility of a sensible long term policy in this regard. Likewise, the question of banning the import of a commodity, or of restricting its import to a certain quantum often gets resolved in favour of those interests which can mobilise a stronger lobby.

The Committee, therefore, recommends that there should be a standing Export/Import Board which would continously examine the developments in regard to production, consumption and prices of items which are imported and exported or for which there may be need or potential for import/export.

8.5.5 The attention of the Committee has been drawn to the fact of inordinate delays in inter-bank remitances lately. These delays add to the interest cost of the exporter and create cash flow problems which are unwarranted. The Committee feels that where such delays are due to the inefficiency of the banks, the costs should not be borne by the exporter and some way should be found to stipulate that interest is not charged by banks from exporters where banks have been tardy in collecting the remittances. The Committee suggests that the problem should be studied by the Reserve Bank of India.

8.6 <u>Export Subsidies</u>

8.6.1 It would be seen from Chapter 11 on Subsidies, that the total amount involved in cash compensatory support, duty drawback and other assistance e.g. for market development in respect of export constitutes the third largest element of subsidy in the Central Government budget. The other two major subsidies, on food and on fertilisers, would be discussed in the respective chapters on Foodgrains and Fertilisers. While a general discussion on subsidies follows in Chapter 11, the above payments from the Budget, for export, are discussed below.

8.6.2 It should perhaps be stated at the outset that the term "export subsidy" is a misnomer. The so-called export subsidy consists, in many cases, of bare compensation to offset indirect taxes, and the taxes and subsidies cancel out. Nonetheless, for present purposes, the term "export subsidies" may be used for all concessions on export. The main issues in the analysis of export subsidies are -

(i) What is the nature and extent of these subsidies?

(ii) How is the extent of export subsidy for individual items determined?

(iii) What is the effectiveness of these subsidies?

(iv) Finally, what are the limitations of these subsidies? What are the available policy options, and how can the system be made more systematic and rational?

8.6.3 Explicit policies for export promotion began some time around 1962. During the period from 1962 to 1966 various export promotion policies were introduced, but these were related mainly to and integrated with the system of import controls. Although the devaluation of the rupee in June 1966 was intended to remove all such special facilities for exporters, several factors combined to nullify or to substantially reduce the potential advantages of devaluation. In 1968, export incentives were reintroduced. In 1976 stability of the export subsidy schemes for a period of three years was assured.

8.6.4 While there have been several studies on export subsidies, both official and private, and while the rates of subsidies have been modified from time to time,

these rates have at no time been based on any careful planning either by way of choosing on the basis of objective criteria laid down, the products in which the country may have long-term comparative advantage, or by deriving the levels of export subsidies for different products on the basis of well-defined (or publicly announced) criteria and principles. Nor was the choice of products for the grant of export subsidies based on systematic studies of the domestic resource cost per unit of foreign exchange earned or saved. Export subsidies have therefore been based on what may be described as "hit or miss" methods, with an eye to securing a 7 to 8 per cent rate of growth of overall exports, without reference to either the costs or the long term benefits.

8.6.5 As at present the following instruments of export incentives are adopted:-

(i) Duty Drawback Scheme,

(ii) Cash Compensatory Support,

(iii) Freight Subsidy,

(iv) Import Replenishment Scheme,

(v) Interest Subsidy, and

(vi) Tax rebates on the market development for exports.

These are briefly explained and discussed in the following paragraphs.

Duty Drawback Scheme

8.6.6 The scheme of duty drawback covers the import and excise duties paid on the inputs of an export product. The drawback has two elements :

(i) drawback of import duty paid on imported raw materials and components used for export production; and

(ii) drawback of excise duty on raw materials purchased by the final producer of the export product.

There are two systems of determining the duty drawback eligible to an exporter -

(a) General industry-wise rates under which specified duty drawback rates are determined on the basis of a priori information on the import content and the excise duty content in domestic purchases of inputs of an export product.

(b) Product-specific rates which are determined for each case separately.

8.6.7 As far as the drawback of import duty is concerned, there is no question as to the justification of the refund of import duty on raw materials and components used in export production. Insofar as the refund of excise duty on raw

materials is concerned, there is by and large justification for the drawback because Indian excise duty rates are high and affect the competitive position of exports of Indian manufacturers. This is, of course, not necessarily true of all items. In principle, however, even developed countries allow such concessions in regard to export production.

8.6.8 Under a scheme introduced recently, of advance licences for imports required for export production, imported inputs are made available to the exporter without payment of the import duty. This is not only helpful to the exporter in that his working capital requirements get reduced, this policy, does not also get questioned and unnecessarily (and wrongly) described as an export subsidy. However, the scheme is applicable today only for a few items, and the Committee feels the scope of the scheme should be increased.

8.6.9 The Duty Drawback Scheme has suffered on account of the delays involved in sanctioning the duty refunds and in the determination of the rates for certain products.

8.6.10 The present Duty Drawback Scheme does not cover all the duties directly and indirectly involved in the inputs of an export product. There are various categories of taxes such as sales tax, octroi, levies on power, indirect taxes on raw materials used in earlier stages of production before conversion into the export product by the final exporter, etc. which cannot be and are not covered by the Duty Drawback Scheme. The cascading effect of some of these duty elements (like the sales tax) in the various stages of the production process aggravates the disadvantages suffered by the exporter. In view of the substantial incidence of the sum total of such indirect taxes, some form of compensation to exporters to neutralise the effect of indirect taxes included in the cost of production has been considered to be necessary.

8.6.11 Questions have been raised in regard to whether it is justified to exclude indirect taxes from the price to be paid for any product by the foreign buyer. It may be noted that even in the developed countries, this system is in vogue. The West European countries have evolved the concept of "Border Tax Adjustment" to permit the refund of all indirect taxes included in the cost of production of an export product. Such compensation to exporters has thus become a time-honoured international practice; and not to allow this facility to Indian exporters would put them at a disadvantage with competitors around the world. Nonetheless, the loss of revenue involved in the scheme may not be justified for items in which domestic production costs are well below international prices. In fact, it is possible to think of cases where such an indiscriminate refund of the internal taxes may only turn the terms of trade against the country, where supply/demand elasticities may only bring down the export prices.

Cash Compensatory Support

8.6.12 The scheme for the grant of Cash Compensatory Support was introduced after the devaluation of the rupee in June, 1966. The cut off point beyond which support should not be given was fixed at 25 per cent of the net f.o.b. realisation (i.e. after

deducting the import content). These percentage rates were based on a rough judgment - and not on any detailed calculation of the long term comparative advantage, the domestic resource cost per unit of foreign exchange earned, or the burden of the taxes in earlier stages of production.

8.6.13 The policy for grant of cash compensatory support was modified in March,1976. It was decided that the rates of cash compensatory support should be determined on the basis of certain broad criteria, which have been adopted since. These criteria have since been reformulated on the basis of the Alexander Committee Report.

8.6.14 The Committee notes that the subject of export subsidies has been examined a number of times by the Public Accounts Committee of Parliament. The PAC (1977-78) (Sixth Lok Sabha)1/ has the following to say in its 10th Report on the Export of Engineering Goods:-

> "Apart from ad-hoc reviews undertaken whenever something was brought to notice and which, in any case, proved to be wholly inadequate in the ultimate analysis, the Committee find that there was no permanent agency within Government to aid decision-making in this regard. Consequently, an almost exclusive reliance had to be placed on the data furnished by the Export Promotion Council, which is comprised of the interested exporters and industrialists themselves....... the Committee would invite attention to their recommendations contained in....their 236th Report (Fifth Lok Sabha), and strongly reiterate the need for devising a more satisfactory monitoring machinery for this purpose........"

8.6.15 The Committee finds that though in principle, there is justification- in respect of competitive items - for reimbursement of the duty element included in the cost of production and similar disadvantages, and while there is general agreement as to principles, the actual grant of cash compensatory support has in fact been generally on an ad hoc basis.

8.6.16 The scheme for cash compensatory support was recently reviewed by the inter-Ministerial Committee on Import and Export Policies and Procedures, headed by Dr. P.C.Alexander. The Alexander Committee has proposed the following criteria for determining the rate of cash compensatory support:-

(i) It should fully compensate various types of indirect taxes, sales tax, etc. which the exporter has to pay on his inputs imported or domestically purchased which are not refunded.

(ii) It should encourage adoption of adequate marketing strategies to neutralise the disadvantage of freight rates etc.

(iii) In case of new products in new markets, magnitude of such assistance should be adequate to take care of additional promotional cost.

1/ Public Accounts Committee (1977-78) (Sixth Lok Sabha), Tenth Report on Export of Engineering Goods, Ministry of Commerce, pp. 110.

8.6.17 The Committee is broadly in agreement with the principles outlined above, but would qualify the recommendation by the proviso indicated in para 8.6.12 earlier, namely that the above criteria should lay down the maximum cash compensatory support to be extended, and not the minimum support to be extended to all exports across the board. The Committee would also like to emphasise that where the cash compensatory support allows for the burden of all duties including materials directly consumed by the exporter-manufacturer, no additional benefit of duty drawback of excise duty be given to exporters. This is because domestic production costs may be significantly lower than international prices of many products, and the "lumpiness" of investment may not permit quick increases in production capacity.

<u>Interest Subsidy</u>

8.6.18 Apart from the burden of indirect taxes, there are other factors which contribute to the disadvantages of the exporters. Interest rates in India are higher than those prevailing in many other countries, and so is the cost of capital equipment. Most countries allow a concessional interest rate on export credit and the incidence of import duty on equipment is also not very high in other countries. However, any lowering of capital costs (through a reduction of duties) is likely to favour capital intensive methods of production when India's comparative advantage rests essentially on labour intensive production. Nontheless, the cost of working capital - which is relatively higher in labour intensive methods - would need to be reduced by neutralising the disadvantage of higher interest rates on working capital, relative to concessional rates of interest available to exporters in other countries.

<u>Import Replenishment Scheme</u>

8.6.19 The facility of free import of raw materials and components for export production cannot be deemed to be a subsidy except -

(a) if import replenishment is permitted well beyond the requirement of export production, and

(b) if the above is accompanied by tight licensing of imports for others.

8.6.20 Although the above may have been valid in the sixties, neither of the above conditions would be valid as of today. The Committee notes that currently, therefore, the Import Replenishment Scheme cannot be deemed to be of the nature of a subsidy to exporters.

<u>Tax Subsidy for Market Development</u>

8.6.21 In regard to the rebate on income tax, given at 133.5 per cent of the expenditure on export market development, the Committee notes that the amount involved is not significant, and may in a sense be deemed to be a facility to encourage export effort which is made more profitable vis-a-vis domestic sales. The Committee recommends that in order to limit the rebate to genuine market development, it should be given only for specified products - to all exporters for such expenditure - for a period of no more than three years

8.7 Effectiveness of Export Subsidies

8.7.1 Annex 8.2 indicates the total exports from India, exports of items which have been granted cash compensatory support, the growth of exports of items enjoying such support and the rate of growth of other exports, and the amount of expenditure involved in providing cash support and duty drawback over the years 1970-71 to 1976-77. It would be seen that -

(a) A significant increase in the value of exports commenced from 1972-73.

(b) Assisted exports showed a really significant increase only in the last two years, namely, 1975-76 and 1976-77, when the simple average of yearly growth rates of such exports was as much as 54 per cent, against only 16 per cent for non-assisted exports.

(c) The share of assisted exports in total exports increased from around 22 per cent in earlier years to around 28 per cent (average) in 1975-76 and 1976-77.

(d) There was also a jump in the value of cash compensatory support (and its percentage to the value of assisted exports) during 1975-76 and 1976-77. The value of cash compensatory support, as a percentage of the f.o.b. value of assisted exports, averaged around 15 per cent in these two years. However, the percentage of the total outgo of funds - in terms of cash compensatory support and duty drawback - in relation to the value of assisted exports remained approximately the same, at around 22 per cent.

8.7.2 Broadly, three ranges of cash compensation rates may be distinguished, below 10 per cent; between 10 and 15 per cent; and above 15 per cent. For 1974-75 to 1976-77, out of 154 items of engineering goods covered by the scheme for cash compensatory support, data on exports and other relevant parameters could be segregated for 76 items, accounting for nearly two-thirds of the total value of engineering goods exports. The results of the study are given in Annex 8.3. The following broad conclusions may be drawn from these data:-

(a) The growth of exports of engineering goods was the highest (72 per cent) for the group of products having CCS at rates below 10 percent.

(b) This group (engineering industry products with cash support rates below 10 per cent) also had the highest share in total exports of assisted products (more than 30 per cent).

8.7.3 It would appear that a high level of subsidy has not, at least in the short period, led to any large increase in exports. The high value items are the ones with a lot of labour embodied in them; and the export of such items has grown relatively faster, even with a smaller level of assistance, which may be expected to have been no more than, and perhaps less than the cumulative burden of indirect taxes. This highlights the need for greater discrimination and study in the matter of grant of export assistance other than the duty drawback.

8.7.4 Who are the exporters to benefit from the scheme of cash support ? Are they primarily large producers, or small producers, or traders ? Annex 8.4 gives a break-up of the amount of cash support disbursed to small scale industries and to large and medium industries, over the year 1974-75 to 1976-77. It would be seen that -

(a) In 1976-77, the share of small industries, in 16 specific products was 37 per cent (as compared to 28 per cent in the previous two years). These 16 products accounted for Rs. 124 crores of CCS out of a total of Rs. 240 crores, or nearly 52 per cent of the total cash compensatory support extended to exports.

(b) For all assisted exports, the share of small industries in the CCS has remained at around 20 per cent of the total.

8.7.5 Unfortunately, the 16 selected industries exclude cotton textiles, jute manufactures, iron and manganese ores, and woollen goods. Data pertaining to these industries get subsumed in the total. One can, nonetheless, say that a substantial part of cash compensatory support accrues to the small scale sector.

Indirect tax content and subsidies

8.7.6 In India, there is a maze of indirect taxes, and the following categories of indirect taxes are not covered in the Duty Drawback Scheme :-

(a) State Sales-tax, Central Sales-tax, Octroi, etc.;

(b) Duties on inputs like electricity, coal etc.;

(c) Customs/Excise duties paid on the capital goods and/or components thereof necessary for the manufacture of the export product.

On a macro level, the incidence of indirect taxes in the gross value of output of all producing sectors can be obtained by dividing the total of indirect tax element in Central and State Government budgets as a percentage of the GNP at market price. This works out between $11\frac{1}{2}$ and 12 per cent for 1977-78. Since local taxes have been missed, this could be rounded off to, say $12\frac{1}{2}$ per cent. This is an aggregative figure. On agricultural products, there are no excise duties, though there would be sales taxes and octroi payment. All in all, one could say that the average burden of indirect taxes on manufactured products would be significantly in excess of $12\frac{1}{2}$ per cent. As against this, duty drawback as a proportion of export works out at 8 per cent, thus leaving a fair amount of tax as the unrefunded element of duty in the price of an export product, after duty drawback.

8.7.7 The above are global estimates based on macro estimates of the GNP, and of indirect taxes, and the percentage is likely to vary substantially from product to product. However, it would *prima facie* appear that the Duty Drawback Scheme does not fully compensate for the burden of indirect taxes in the manufacture of industrial products.

8.7.8 The above would also discount the recommendation of many experts that there should be a uniform rate of cash compensatory support for all exports. The Committee feels this would not be desirable in view of the widely divergent incidence of indirect taxes on different manufactured products.

8.7.9 The Committee feels that there is need for detailed calculations of the incidence of indirect taxes with a view to fixing suitable cash compensation rates as suggested by the Alexander Committee.

Chapter 9

EXCHANGE CONTROL

9.1 Introduction

9.1.1 Exchange control was first imposed, as part of the Defence of India Rules, on September 3, 1939. For long years, exchange control in India has differentiated between the sterling area and the general currency area, both in regard to trade and in regard to other transactions. While the system was dismantled over a number of years in the fifties, from about the mid-fifties, there has been a new type of differentiation in regard to payments and exchange transactions with specified countries. The genesis of the rupee payments arrangements, involving payments in non-convertible rupees for all trade and other transactions between the East European countries (and some other Communist Countries) on the one hand and India on the other hand, commenced from November, 1958 when the first trade and payments agreement with the USSR was drawn up envisaging all payments in non-convertible rupees. From modest beginnings in the mid-fifties, trade under rupees payment arrangements had reached a total of Rs. 1,510* crores in 1977-78 out of the aggregate trade of Rs. 11,400 crores* or around 13 percent of the total trade.

9.1.2 Apart from this, more limited bilateral trade and payment agreements have been separately drawn up from time to time with a number of other countries like Afghanistan, Iraq, Egypt etc.

9.1.3 Exchange control may be examined from the point of view of —

(a) payments for exports/imports of goods;

(b) other current transactions with the rest of the world; and

(c) transactions on capital account with the rest of the world.

9.1.4 Capital transactions are today regulated by all countries of the world except a few "tax havens" like the Bahamas which have permitted free capital transactions in order to attract emigré and other capital. One reason is that no country can afford to open up its economy to speculative movements of "hot money". Even the size of the "Eurodollar" funds - which are only one of several types of funds seeking placement - makes it incumbent on countries to regulate inward/outward capital movements. Insofar as capital transactions are concerned, therefore, the only difference that arises in the system of control exercised by different countries stems from the degree of control, and the procedure of control, rather than the basic fact of control.

---

*Provisional figures

9.1.5. The major transactions regulated under the exchange control system in India are —

(a) purchase and sale of and other dealings in foreign exchange and maintenance of balances at foreign centres;

(b) procedure for realisation of proceeds of exports;

(c) payments to non-residents or to their accounts in India;

(d) transfer of securities between residents and non-residents and acquisition and holding of foreign securities;

(e) foreign travel (with or without exchange);

(f) export and import of currency, cheques, drafts, travellers cheques and other financial instruments, securities, jewellery, etc;

(g) trading, commercial and industrial activities in India of foreign firms and companies (including branches of foreign firms and companies) and foreign nationals as well as acquisition of business undertakings and acquisition and holding of shares in Indian companies by such firms/companies and persons;

(h) appointment of non-residents and foreign nationals and companies as agents or technical/management advisers in India, lending by foreign companies/firms or by foreign nationals of trade marks owned by them to be used by parties in India for a direct or indirect consideration;

(i) employment, profession etc. undertaken in India by foreign nationals;

(j) acquisition, holding and disposal of immovable property in India by foreign nationals and companies; and

(k) acquisition, holding and disposal of immovable property outside India by persons resident in India.

9.1.6 Additionally, import of gold and silver and export of gold and jewellery are probihitted except with the special permission of the Reserve Bank of India, export of silver being regulated under Export Control. There are certain exemptions in regard to export/import of personal jewellery (upto certain limits).

9.1.7 Foreign currency can be brought into India upto $ 1000 freely by any traveller; and in any amount after declaration to the customs authorities.

9.2 Control over export receipts

9.2.1 The purpose of the control exercised by the Reserve Bank of India in this context is to ensure that export earnings are brought into the country. The

instrument of control is the GR form 1/(and the EP form for Pakistan and Afghanistan, the PP form for parcel post, and the VP/COD form for postal shipments where export proceeds are realised through postal channels).

9.2.2 The exporter is required to fill up the GR form in triplicate, which is then handed over to the customs authorities, while making the shipment. The customs authorities verify the details, particularly the basis of valuation, and the value of exports, and record their valuation on all three copies. The original is sent to the Reserve Bank of India and the other two are returned to the exporter after entering a "security number", to help the Bank to check and to ensure that all GR forms verified by the customs are received. In case of short shipment or "shut out" shipment, the exporter has to file separate notices in appropriate forms, with the customs. Copies of these notices are forwarded to the Reserve Bank of India by the Customs authorities after verification.

9.2.3 The exporter submits the shipping documents with invoice and other documents to a bank - including the duplicate and triplicate copies of the GR form- and it is the bank which then realises the value of the exports on behalf of its client. The bank forwards the duplicate GR form to the Reserve Bank of India immediately, and the triplicate after full realisation. The exporter is allowed three weeks from the date of shipment to submit the documents to a bank, and 180 days to realise the export earnings. While the conditions of sale by the exporter have to provide for this, in effect, it is the bank which has to set about doing so on receipt of the documents.

9.2.4 The following features of the procedure are noteworthy :—

(a) The Reserve Bank of India has no role to play in checking whether the exporter has declared the full value of exports. This means that leakages through the under-invoicing of exports cannot be checked by the Reserve Bank of India. The Committee is advised that the total outstanding export earnings which may be deemed to be not realised to date since the inception of Exchange Control, are only Rs.144 crores, excluding reductions in the value of exports approved by the Reserve Bank of India, or where defaults by exporters have been adjudicated. While this indicates in a sense the effectiveness of the system- considering that the value of exports in only the last ten years amounted to some Rs. 25,000 crores- there is the possibility that some GR form duplicates and triplicates may not have entered the banking system at all for retention abroad of export proceeds illegally. The existing system has not been able to plug this loophole.

1/ GR form -- Goods (Revised) form
EP form -- Exports to Pakistan form (used also for Afghanistan)
PP form -- Parcel Post form
VP form -- Value payable form
COD form -- Cash on Delivery form

(b) There is considerable to and fro physical movement of GR forms- from the Customs to the Reserve Bank of India; from the exporters' banks to the Reserve Bank of India; and queries from the Reserve Bank of India through the banks to the exporters.

(c) Considering the number of GR forms involved- 12 lakhs received by the Reserve Bank of India in 1975-76 only- the physical transport and checking of so much paper, is cumbersome and wasteful. Indeed, if the trend of increase in exports is sustained, and exports more and more diversified, the increase in the volume of paper would become unmanageable.

9.2.5 The Committee feels that the present system must inevitably involve delays, contributed not only by the procedure adopted but also by the postal and communication system, and the possibility of loss of GR forms in the mail. The present procedure is in any case not designed to meet the increasing pressure likely to be exerted on the system by the steadily increasing volume of exports.

9.2.6 An alternative to the present system must, therefore, be found. One possibility would be to delegate greater responsibility to the authorised banks dealing in foreign exchange in the matter of checking the realisation of export earnings. In any case, as of today the realisation of export receipts is effectively the responsibility of banks. The Reserve Bank of India could ensure verification of the GR duplicates with the originals and undertake sample physical checks, placing primary reliance on banks to compare the GR duplicates with the triplicate forms. The frame of reference for both could be the security number already allotted to each shipment, and entered in the GR form.

9.2.7 One representation received by the Committee from a reputed firm (now nationalised) is that it has been asked to furnish particulars and explanations in regard to a small discrepancy pertaining to an export transaction ten years back. While this extreme example underscores the long reach of the Exchange Control system, it also highlights the delays likely to arise in the working of the present system. The Committee would, therefore, like to reiterate that methods to streamline and modernise the system be evolved. The devolution of greater responsibility to the banks could be associated with the present Exchange Control staff of the Reserve Bank of India acting as "inspection staff", to check the records of the banks on a sample basis.

9.2.8 The Committee notes that as of today, inward remittances from Indians working or living abroad have reached some 20 per cent to one quarter of the total current foreign exchange receipts of the country. Apart from the impossibility of exercising control over inward remittances - Indians abroad just need not send any remittance if they are so inclined- the fact that such large remittances are coming in through the banking system is indicative of the inherent strength of the rupee in the world of illegal exchange transactions. In other words, a realistic exchange rate is a better guarantee of realisation of export receipts today than any very detailed control system which does not in any case extend to remittances.

9.3 Invisibles

9.3.1 As noted above, there is today a very large area of foreign exchange receipts - by way of inward remittances from Indians working abroad - over which the Government and the Reserve Bank of India have no control. The prevention of smuggling would, therefore, have to rely on the alertness of the customs authorities. To all intent and purposes, there is no check on the non-realisation of exchange receipts from the substantial investments made abroad by Indian companies during the last decade. The Committee feels that this matter should be looked into, and the Government should issue an annual statement of the gross receipts on this account separately, together with the gross outflow of capital which has been permitted for investment by Indian firms abroad, both by way of cumulative totals and annually.

9.3.2 Foreign travel : There has, of late, been considerable simplification of the rules regarding and facilities for foreign travel. The recent abolition of the 'P' form, its prime regulator, in August 1978, has eliminated a great deal of avoidable paper work and administrative effort. Despite the recent simplifications, there still remain separate regulations for established exporters and export houses, other businessmen, consultancy firms, hoteliers, students, trainees, participants in conferences, sick people, cultural and similar delegations, journalists, pilgrims, foreign born wives, tourists going to special areas (like Mauritius and Pakistan), and — with justification-emigrants. The foreign exchange allowance for different purposes is laid down in great detail. The extreme differentiation and detailed ex-post checking of foreign exchange expenditure by businessmen (where blanket exchange approvals are given to begin with) lead to a disproportionately heavy administrative load on the Reserve Bank, compared to the size of the problem involved.

9.3.3 Until 1958, foreign travel used to be controlled by the British Travel Quota (BTQ) system, with a maximum allowance of £750 per person once in two years; the fact of exchange release being entered in the passport, and release of foreign exchange regulated by the Authorised Dealers in Foreign Exchange. The earlier system has now been replaced by the Foreign Travel Scheme (FTS) permitting $500 per person once in two years, and is administered by the Reserve Bank of India, on the ground that passports can be "lost", and thereby the travel regulation evaded by taking out a new passport. It has been indicated to the Committee that exchange under the FTS can be released by designated banks, but in practice, this does not happen, and it has also been represented to the Committee that reference to the Reserve Bank of India is invariably made, who check with their records as to past use of exchange by those who propose to travel. The amount of foreign exchange release is a matter which can and should be determined from time to time; but there is no reason why the Reserve Bank of India should be required to administer a system based on physical verification of records of thousands of people going abroad.

9.3.4 The exchange control regulation of foreign travel appears to be neither very efficient nor very effective. Control over exchange releases for travel purposes can have two objectives —

(a) to reduce the outgo of foreign exchange for inessential uses or purposes; and

(b) to prevent leakages of foreign exchange for smuggling of gold and other restricted items.

9.3.5 The following information pertaining to expenditure on travel abroad 2/ during 1977-78 is relevant for a decision on the degree of strictness to be applied on foreign travel :—

Permits issued	Number	Amount of exchange released (Rs. lakhs)
1. Students/Trainees	1476	545
2. Businessmen	27252	2495
3. For medical treatment	284	87
4. For study tours	1194	149
5. Attendance at conferences	1931	97
6. Miscellaneous	9965	371
	42102	3744
		(say Rs. 37 crores)

'P' Forms approved (without foreign exchange release)

	Number
1. For joining head of family	17744
2. For visits to relatives	19626
3. For export promotion	1109
4. For employment abroad	93290
5. For emigration	12898
6. For students/trainees	2212
7. Miscellaneous	25524

Foreign Travel Scheme

Number of persons covered by approvals	Maximum amount (assuming exchange rate of $1= Rs.8.5)
96593	Rs.41,05 crores

9.3.6 It would be seen that leaving out emigrants, people seeking employment abroad, and persons wishing to join the heads of their families, the number of 'P' forms granted was 48,471. The persons who travelled under the Foreign Travel Scheme could have availed of a maximum of Rs.41 crores of exchange; and the maximum additional exchange that could have been availed by the 48,471 people who availed of the 'P' form, would - under the FTS- have been Rs.20.6 crores. The total of possible outgo of foreign exchange for foreign travel would thus be of the

2/ Source: Reserve Bank of India Bulletin, April 1978, pp 318.

order of only 1 per cent of total receipts of foreign exchange on current account (exports plus invisibles), and even this is an outside limit because not all of the 48,471persons who had availed of the 'P' form would have taken out Rs.4,250 (per head) permitted under the FT Scheme.

9.3.7 The total expenditure on travel abroad today is only of the order of one per cent of current exchange earnings; and travel regulation accounts for 15 per cent of the staff costs of the Exchange Control Department of the Reserve Bank of India.

9.3.8 The Committee feels that the leakage of foreign exchange is less likely to arise from the occasional traveller abroad, the small sender of remittances home and the small exporter, than from the transactions of large firms with interests or investments abroad. The harrasment of the small man should be reduced by drastically simplying regulations, and giving wide publicity to extant regulations.

9.3.9 The Committee notes that until very recently, no data have been available on the realisation of profits and dividends from the substantial investments made abroad in the past decade by Indian companies. Some limited data in this connection have become available only in regard to cumulative totals as of 31st December, 1978. By and large, there is no check on the non-realisation of such exchange receipts. As of 31st December 1978, the cumulative total of dividends received from all such investments is stated to be only Rs.2.1 crores. This is offset exactly by the presumed loss of equity in respect of abandoned units which also is Rs. 2.1 crores. As of 31st December 1978, the total Indian equity of 107 joint Indian ventures abroad currently in production was Rs.27.7 crores, and the approved Indian equity in another 90 units currently under implementation is Rs. 45.3 crores. Considering the large investments made in these joint ventures abroad, the Committee recommends that the functioning of these units and the gain therefrom should be continually evaluated and an annual statement in this regard should be presented to Parliament.

9.3.10 The Committee feels that it would be far simpler to classify all travellers in 3 or 4 categories and prescribe appropriate per diem foreign exchange allowance to each. Calculations made by the Committee indicate that such a procedure is unlikely to result in a significantly higher outgo of foreign exchange while achieving substantial simplification and saving of work in the Reserve Bank of India. Care should be taken that the amount of foreign exchange per diem for each category is not so low as to make it impossible for the traveller to live in a reasonably decent way abroad since each traveller carries the name and prestige of India.

9.3.11 Once the above has been done, it would be possible to delegate the authority to grant foreign exchange to authorised dealers, on the basis of relevant entries in the passport of the applicant, in terms of clear guidelines to be laid down. The Committee would recommend such a system.

9.4 Non-residents' assets

9.4.1 For regulation of asset holding in India, the Reserve Bank of India classifies non-residents into the following classes :—

(a) **Indian (and foreign) nationals of Indian descent abroad, who may be designated as ethnic Indians.**

(b) Foreign Banks, governments and international institutions.

(c) Other foreign nationals and foreign firms.

9.4.2 Ethnic Indians abroad have, since 1976, been permitted several facilities not available either to Indian nationals (resident in India) or foreigners. The scheme was evolved in order to attract the savings of Indians living abroad.

9.4.3 The substantive control in regard to non-residents' assets pertains to sub-paragraph (c) of para 9.4.1. While capital transactions are not freely permitted by any country, the Committee feels that a somewhat more liberal policy in regard to non-residents' assets in India- as for instance, arising from dilution under the Foreign Exchange Regulation Act (FERA) would be justified, in the light of the present generally comfortable foreign exchange position of the country.

9.4.4 There is an associated control - not directly related to exchange control- which deserves mention in the present context. The present baggage rules, and the customs treatment of Indians working in the Middle East returning for a brief visit home, are, according to evidence tendered by a number of people, extremely harsh, unfriendly and even contrary to national interests. Many Indians working in the Middle East are not educated; but they are today an important factor in the comfortable foreign exchange reserves position of the country. Educated Indians returning from abroad and foreign nationals are accorded a treatment by customs authorities markedly different from the treatment accorded to these "workers" and craftsmen. This is a matter really of "attitude". But since attitudes are not easy to change quickly, the rules should be. The task of the customs authorities- in regard to passengers- should be directed to checking smuggling and not to harrasing bonafide travellers.

9.4.5 Other regulations : There are several other aspects of exchange control which merit simplification. There are restrictions on the value of goods that a foreign tourist can take away with him (Rs. 1000), and there are restrictions on the export of gold ornaments and other jewellary and carpets, etc. The Committee is informed that a proposal for raising this limit to Rs. 10,000, and the imposition of testchecks at customs exit points, is pending with Government. The tourist should be encouraged to buy more Indian goods at Indian prices. Gold ornaments prices in India are calibrated to Indian gold prices which are known to be higher than international prices. If gold jewellery is nonetheless bought by tourists this would be tantamount to the export of Indian craftsmanship. These should be freely exportable but without "import replenishment" of the gold content of the jewellery exported. Although there is some danger that emigrant Indians may like to take away capital this way, a value limit of Rs. 10,000 may take care of this problem. In any case, as of today, people who do wish to migrate are generally poorer people who send remittances home; and the richer ones find ways and means to break the law any way if they are so inclined. The only items the export of which may be subject to permit may be antiques and silverware (the latter being tantamount to the export of silver).

9.4.6 There are numerous other details which complicate exchange control transactions, covering regulations concerning assets held by Indian nationals abroad, construction contracts, payments for services, and repatriation of income from over-

seas offices and subsidiaries. There also arise problems in regard to the complex set of forms to be filled up and returns to be submitted. The control system is quite detailed and the problem of simplification of these controls, as also of the forms and returns associated with them must remain a matter of specialised study.
The only point on which the Committee would like to comment is the complexity of the present system, as embodied in the Exchange Control Manual. It is worth noting that volume I of the Manual, setting out the rules of the game runs over 604 printed pages, while volume II of the Manual giving the various forms relevant for exchange control purposes, runs to 432 printed pages. It is doubtful whether any body but an expert can assimilate all the rules of the game. The Committee has already emphasised the need for simplicity of all controls. Considering the sea-change which has occurred lately in regard to the nature and pattern of foreign exchange receipts - inward remittances, over which neither the Government nor the Reserve Bank has any direct control, becoming increasingly more important - the need to drastically simplify the entire system of exchange control is paramount, with the focus of attention being changed and directed to certain other types of transactions which are today generally not investigated, e.g. the transactions of companies with links abroad.

Chapter 10

HOUSING AND CONSTRUCTION ACTIVITY

10.1 Introduction

10.1.1 Construction activity today accounts for 5 per cent of the work force 1/, while income from property accounts for 6 per cent of the national income 2/. One aspect of the housing problem is the serious inadequacy of housing, even in terms of the very modest standards laid down, for a large part of the population. Being an essentially labour intensive activity, construction provides considerable scope for new employment. Apart from positive action to promote public housing, therefore, there is urgent need to focus attention on the removal of restraints and controls on construction activity.

10.1.2 Private construction of houses depends on several factors —

(a) on the availability at reasonable prices of suitable land and construction materials;

(b) on the availability of finance for construction; and

(c) on a general *milieu* favourable to investment in housing.

10.1.3 Apart from these general factors, there are at present, three constraints on the construction of housing. These are -

(i) rent control (exercised by State Governments or local authorities);

(ii) the Urban Land (Ceiling and Regulation) Act of 1976; and

(iii) the problems arising from the need to secure the approval of municipal and other local authorities to construction plans.

10.2 The housing problem

10.2.1 According to the Draft Plan (1978-83), the housing shortage at the beginning of the Fifth Five Year Plan was estimated at 15.6 million housing units - 11.8 million in rural areas and 3.8 million in urban areas - at a minimum acceptable standard of housing. The housing problem in a 20-year time frame would require the construction of enough houses to -

(a) meet the requirement of additional households due to growth of population;

(b) meet the replacement requirements of obsolescent dwelling units; and

(c) wipe out the existing back-log.

1/ Economic Survey 1977-78, pp. 80-81, Tables 3.1 and 3.2.

2/ Central Statistical Organisation, Government of India, National Accounts Statistics, October 1976, Table 49, p.110.

10.2.2 According to the Draft Plan the achievement of such a goal will necessitate a construction programme of 4.5 million new dwelling units per year - 1.2 million housing units in urban areas and 3.3 million dwelling units in rural areas - over the next 20 years. The Planning Commission Working Group on Housing had estimated that approximately 500,000 dwelling units - half of them unauthorised - get constructed annually in urban areas. Even including unauthorised dwellings, most of which are totally insanitary and many of which get pulled down by the municipal corporations, new construction of housing would not meet even half the requirements of additional housing as indicated in the Draft Plan. The Planning Commission has estimated that such a house construction programme which would meet requirements over a 20-year span would call for an annual outlay of Rs. 2,790 crores on housing, while the current rate of investment in housing (during the Fifth Plan) has been estimated to be of the order of Rs. 950 crores per annum, or only a little more than one-third of the requirement.

10.2.3 The above figures are cited here in order to indicate the serious nature of the housing problem. In order that the Plan objective may be fulfilled, it is necessary to remove all avoidable constraints on house building, as well as to ensure better maintenance of the existing stock of housing. The present constraints of housebuilding activity, as indicated in para 10.1.3 earlier, and suggestions as to their removal are briefly outlined below.

10.3 Rent Control

10.3.1 Rent control is in vogue in some form or the other, in all States, in all metropolitan areas, and in large towns, the impact of this control is somewhat pervasive. A list of the extant Rent Control Acts of the different States/Union Territories - to the extent this information could be assembled by the Committee - is given at Annex 10.1.

10.3.2 The main objective of rent control is the protection of the tenant against the landlord. The substantive provisions in most State laws relate to-

(a) standard fair rent;

(b) allotment of rent controlled houses;

(c) eviction of tenants; and

(d) obligations and duties of the landlord.

There are several other objectives of rent control legislation, but these are of secondary importance, and not germane to the present issue.

10.3.3 There are, as of today, many householders and tenants belonging to lower income groups who need to be protected. Nonetheless, insofar as rent control is concerned, an important question remains as to who precisely are the beneficiaries of the control system. In any case, there are certa iniquities inherent in rent control, which are briefly indicated below:-

(a) There are many poor houseowners, particularly retired people, widows and other people who had invested their life's savings for the construction of a house, in the expectation of a rental income. These poor houseowners are very hard hit by rent control, and their earnings have over the years been steadily eroded by inflation.

(b) There are many affluent tenants who do not deserve this subsidy, which is really enjoyed by the tenants at the expense of poor houseowners. Indeed, many established and well-to-do business houses enjoy a subsidy on the commercial premises occupied by them as a result of rent control.

(c) It is known that when existing tenants do want to or have to move - as for instance on a transfer to a new place - they extract a "pugree" for vacating the premises occupied by them. Thus, the benefit of any scarcity value attaching to the property is reaped not by the owner but by the tenant.

(d) One anomaly in rent control is that it does not benefit the newly employed or new job seekers coming from other places. The benefit accrues only to those who stay on in the premises.

(e) There are also many instances where, side by side, widely divergent rents may apply to two houses in the same area, one rent for an old house subject to rent control, and a quite different rent for a new house not subject to rent control.

10.3.4 It is, therefore, extremely important to take a careful look at the beneficiaries of rent control.

10.3.5 The above defects of the system are well known. It is worth reiterating that apart from black market transactions, by way of a 'pugree' or a 'salami', which is now payable by a new tenant for a rent-controlled premises, - which, inter alia, means direct loss of municipal revenue because the rateable value of house property remains low - another really sad consequence of rent control has been the complete neglect of repair and maintenance of existing buildings. In metropolitan areas, the owners of old buildings pray for the collapse of the buildings - a frequent occurrence owing to neglect and lack of repair - so that they can demolish the old buildings and construct afresh, since new buildings are not subject to rent control. The lack of maintenance of old buildings is not always due to the rapacity of the landlords. In the last 30 years, the rate of inflation has raised annual maintenance costs to levels totally out of line with the rental of old buildings. This leads to premature obsolescence of existing housing stock. As mentioned earlier, many landlords are financially weaker than some of their tenants.

10.3.6 One of the problems of the present system is that even in genuine cases, landlords cannot obtain possession of premises once let out by them, even for their own requirements. Tenancy rights do not in theory get transferred, but in actual fact, tenancy does pass from father to son. There is an estate duty on inheritance of house property, but tenancy passes on without any such problem - on the strength of actual occupation - in most urban areas.

10.3.7 Thus, rent control has begun to act as a disincentive for construction of new housing for purposes of renting. True, some safeguards have been provided in certain areas; but house construction for purposes of renting out has flourished only in areas where company leases - for senior executives - or renting by diplomats at a high rental has been possible. There has been practically no private construction of low cost housing either for workers or for the lower middle classes.

10.3.8 Certain research studies sponsored by the National Buildings Organisation (in Hyderabad in 1966, and later in Bombay, Delhi, Madras and Calcutta) seem to indicate that

rent control legislation has not hampered construction activity *per se.* As indicated earlier, there has doubtless occurred some construction of dwellings, but these have been mainly in respect of owner-occupied houses or of high-rental dwellings or commercial premises. Even for middle income groups, construction has been limited to owner-occupied dwellings, while for low-income groups, new housing accommodation has been limited to that built by Government. Shanty towns and slum areas have therefore sprouted in all metropolitan areas. All studies on housing, while recommending a massive housing programme by the Government, have recognised the need for an even more massive construction programme in the private sector.

10.3.9 The Committee feels that while there are many householders and tenants belonging to lower income groups who need to be protected, the existing defects of rent control need to be remedied. Any change in the present system, however, can only be gradual. The Committee therefore recommends the following approach:-

(a) Apart from small shops and commercial establishments of self employed persons, there should be no rent control in respect of commercial and office premises. In particular, buildings occupied by corporate organisations should be freed from rent control. This would *inter alia* improve municipal revenues since municipal rates are a percentage of the rental.

(b) There is no justification for maintaining rent control in respect of residential buildings occupied by persons who own dwelling units in the same town. The law should apply in respect of houses owned by self or spouse or in the name of dependent children, as applied for income tax purposes. To find out such cases would be a problem, but it can be got over by providing for an affidavit to be given by every tenant, with stringent penalties for violations and wrong declarations. Usually, these facts are known to interested parties, and if the law so provides, the landlords of buildings on which there is rent control can ask for a revision of the rents of the premises let out by them - or alternatively, for the premises to be vacated by those who have built their own houses - so that the owners of old houses are not discriminated against. This principle has been applied lately in respect of allotment of Government accommodation to Government servants who may have constructed houses in the place of their posting. The law should provide that the landlord should be allowed to re-possess his house (or any one house of his choice if he owns more than one). Alternatively, a house-owner occupying a rent-controlled house should pay market rent for the premises occupied by him.

(c) For all other old buildings, increases in rent should be allowed periodically, by gradual steps, say, over a period of five to ten years, to bring the rental to a rational level. This would bring about a gradual change, giving existing tenants an opportunity to either find alternative accommodation or to pay a higher rent, but only by stages.

(d) In addition to above, existing tenants should be allowed to buy up the houses occupied by them, for which the value of the house may be fixed at a specified multiple of the capitalised value of the existing rent. This

facility may be confined only to tenants who do not own any house property ; and also where the landlords own more than one building, they being given the choice, of one building for their own residence. Any purchase/sale transaction, if voluntary, would need no intervention on the part of the authorities, but where no such voluntary sale is agreed to, the landlord may be allowed to give the tenant the choice either of paying a higher rent or of buying up the property, at the value derived by a formula to be devised for this purpose. This would at least help to improve the maintenance of existing buildings, and also improve municipal revenues, by increasing the rateable value of houses.

(e) Since a majority of tenants may not have the resources to buy the premises occupied by them, the LIC and other house financing corporations may be authorised to permit loans to be given for purchase of existing property, in addition to the present scheme of financing only construction of new houses. This principle should apply to Government loans for housing also.

(f) Owners of dwellings shoud be permitted to get a house vacated for bona fide self occupation, but in such cases, the owner should not be allowed to let out the house at least for three years of its being vacated.

(g) Where a building is divided up into apartments, and ownership under the new dispensation is to vest with a number of different owners - each owning one apartment - maintenance of the building may pose a problem. In such cases, the authorities should have the powers to compel the new owners to form a co-operative for the maintenance of the property, failing which the authorities should have the power to lay down norms of expenditure for maintenance, the required amount to be credited with a public authority - of the type already in existence at least on paper in Bombay city - the said authority being made responsible for the maintenance of the property.

10.4 The Urban Land (Ceiling and Regulation) Act

10.4.1 The Urban Land (Ceiling and Regulation) Act, 1976, was passed by Parliament, on resolutions having been passed by 11 State Governments/Union Territories, "to provide for the imposition of a ceiling on vacant urban agglomeration, for the acquisition of such land in excess of the ceiling limit, to regulate the construction of buildings on such land and for matters connected therewith, with a view to preventing the concentration of urban land in the hands of a few persons and speculation therein and with a view to bringing about an equitable distribution of land in urban agglomerations to subserve the common good".

10.4.2 In sum, the objectives of the Act have been —

(i) the imposition of a ceiling on vacant land in urban agglomerations, and on the acquisition of land in excess of the ceiling;

(ii) the regulation of the construction of buildings so as to prevent the concentration of urban land in a few hands for speculation and profiteering; and

(iii) the bringing about of an equitable distribution of urban land.

10.4.3 In actual operation, the Act has made for—

(i) the imposition of a ceiling on both ownership and possession of vacant land in urban areas; the ceiling varying according to the classification of the agglomeration (500 sq. metres in category 'A' to 2,000 sq. metres in category 'D');

(ii) the acquisition of the excess vacant land by the State Government with powers to dispose of the land;

(iii) payment for the acquisition of the excess vacant land, in cash and in bonds; the compensation rate ranging from Rs. 10 per sq. metre downwards in categories A & B to Rs.5 downwards in categories C & D;

(iv) certain restrictions on the transfer of land in urban agglomerations; and

(v) restriction on the size of dwelling units in future residential buildings.

10.4.4 The Act also allows landowners to retain the excess land for building dwelling units for economically backward sections of the society. The Act at present applies to 17 States indicated below and all the Union Territories:—

Andhra Pradesh,	Assam,	Bihar,	Gujarat,
Haryana,	Himachal Pradesh,	Karnataka,	Maharashtra,
Manipur,	Madhya Pradesh,	Meghalaya,	Orissa,
Punjab,	Rajasthan,	Tripura,	Uttar Pradesh,
and	West Bengal		

10.4.5 In actual implementation of the Act, however, the law has, inadvertently, retarded building activity in most of the large cities and towns, has imposed a number of administrative and legal barriers on the land market, and has created difficulties in the way of construction of houses. The progress of implementation of the Act, as given in Annex 10.2, would be seen to be far from satisfactory.

10.4.6 The Government of India has meanwhile advised the State Governments to exempt excess land held for industrial and commercial purposes, in the public interest. Guidelines have also been issued for expediting approval to building plans for construction on vacant land where the Act permits such use, or to relax and grant permission to owners where the excess land-holding is marginally in excess of the limit provided by law, and where such excess cannot be suitably converted into a dwelling area for others. Despite these guidelines, it has been reported that there has been no resolution of pending problems, and that building activity has been hampered owing to delays in clearances under the Urban Land (Ceiling and Regulation) Act. Some reasons for this are —

(i) Some of the provisions of the Act are confusing e.g. those relating to land appurtenant to a building, to land on which building is not permissible, and to plots that are owned by one person but scattered in different areas.

(ii) The Act does not distinguish between those who hold large tracts of land for speculative purposes and those who have obtained them for specific purposes from Government agencies like Housing Boards, City Improvement Trusts, etc.

(iii) Where a person holds excess vacant land he cannot easily use even what is within the ceiling till the excess is determined and acquired by the Government or is exempted by the State Governments; this involves administrative delays. Annex 10.3 shows the number of applications for exemption and the number of applications where exemptions were given which would indicate the slow progress made in according approvals.

(iv) Restrictions on transfer of vacant land or built-up property delay such transations.

10.4.7 The result is that building activity is reported to have been seriously retarded, which has aggravated the housing shortage and has also, to that extent, retarded the growth of employment in construction and other related economic activities. There has doubtless been a spurt in private construction in some selected areas, based on inward remittances from expatriates abroad, particularly in the past two years, or in areas where luxury accommodation has been in high demand. But it has been represented to the Committee that there is much less construction activity than would have occurred today in the absence of the Urban Land (Ceiling and Regulation) Act. It has also been represented that the cumbersome procedures and restrictions, and the discretion vested in competent authorities have led to currruption, delay and harassment to the public, without subserving the objectives of policy.

10.4.8 The attention of the Committee has been drawn to certain amendments made very recently, on February 22, 1979 to Rules under the Urban Land (Ceiling and Regulation) Act - which are in continuation and are an extension of an amendment of 1977 - which permit the construction of dwelling units for the weaker sections of the society on vacant land in excess of the prescribed ceiling so long as the plinth area does not exceed 80 sq. metres, also provided that not less than 50 per cent of the total dwelling units so constructed have plinth area not exceeding 40 sq. metres and construction of the dwelling units is completed within 5 years. The dwelling units so constructed are to be sold outright or on hire purchase basis or let out on rent to the weaker sections of the society. Where the dwelling units are sold outright, the sale price should not exceed the actual cost of construction plus a certain income derived or expected from the land, plus 15 per cent of the cost of construction and the cost of land. Similar conditions have been laid down in regard to the sale on hire purchase basis, or to be let out on rental basis.

10.4.9 It is too early to say whether the above facility would help to speed up construction on the vacant land in possession of more affluent people in the urban conglomerates.

10.4.10 In the evidence tendered before the Committee, three different views have been expressed on this piece of legislation. An overwhelmingly preponderant view has been that the Urban Land (Ceiling and Regulation) Act has not fulfilled it objectives. In fact, the Committee finds that in some States, not even a start has been made in the matter of disposal of applications. One view in this connection has been that the law should be rigorously implemented, and that the land in excess of the ceiling should be acquired, and disposed of. Another view

has been that the measure would not really relieve the housing shortage. It has been stated that rather than acquire bits and pieces of land, a penal tax - both by way of municipal rates which may be levied on the entire area as if it has been fully developed and constructed as per municipal rules, as well as in terms of the Wealth Tax - may help to parcel out large land areas and encourage new construction by the owners, for purposes of renting out the new premises.

10.4.11 In principle, it makes sense to set a limit on urban property if the ceiling on land ownership in rural areas is to be pressed forward. On the other hand, it has to be noted that the Urban Land (Ceiling and Regulation) Act sets no limit to urban property, but only to the size of single patches of property. One view has been that to be really meaningful, the Urban Land (Ceiling and Regulation) Act should be extended, and powers taken for the acquisition of entire areas, for redevelopment and town planning on a more systematic and egalitarian basis. In essence this implies the acquisition of all properties in selected blocks or areas, so that mass scale housing can be provided, within the framework of a planned urban development programme. This has been opposed by some on the ground that the country cannot afford to pull down a single dwelling unit, and that the problem should be tackled only by developing new areas.

10.4.12 There is a practical solution which could be considered in this connection. Destruction of a large number of good dwelling units is obviously not desirable. On the other hand, there are many areas where most houses are fit to be pulled down, and the entire area redeveloped. If there are one or two isolated houses which have still useful life left in areas where most houses deserve to be pulled down anyway, the acquisition of an entire area or block may still provide the greatest good for the greatest number. In some areas, the authorities may announce in advance the intention to acquire all properties, say, five to ten years hence, in a phased manner, so that no new construction is undertaken there. In such areas, group housing schemes or co-operatives may be encouraged, failing which a public construction programme may have to be undertaken. The advantage of such well-planned action would be to provide the basis for a massive programme of construction of new dwelling units for the low and middle income groups in urban areas.

10.4.13 Insofar as the Urban Land (Ceiling and Regulation) Act is concerned, the problems verge on the strategy of development. In this connection, the Committee feels -

(a) that as the law stands at present, it cannot really help to give a boost to the construction of new dwelling units;

(b) that the Act has not even been implemented so far;

(c) that it cannot nevertheless be disbanded, since the objectives of the Act are in line with the goals of policy;

(d) that the concentration of luxury residential buildings in a few urban centres - which the present law has not been able to restrain - is making a disproportionate demand on the nation's savings as well as on scarce materials like steel and cement;

(e) that social purpose would be better served by having resources diverted to the construction of cheaper housing for low income groups;

(f) that as a matter of general practice in urban development, housing in the the centre of towns is generally for the less affluent, while the more affluent live in distant suburbs, which is exactly the opposite of the situation today in the metropolitan areas of Bombay, Delhi, Calcutta and Madras; and that this situation has not been corrected so far by the Act, and needs to be rectified;

(g) that in the interest of proper town planning, the Act should be modified and extended to permit acquisition of all properties in entire blocks where most houses deserve to be pulled down, which may also be selected for redevelopment into housing colonies for the less affluent; that prior to doing so, the concerned authorities should give a minimum notice of 5 to 10 years so that no new construction is started in the designated area, where public housing for the less affluent may then be undertaken;

(h) that an alternative way to achieve the social purpose would be to levy a penal tax on property in excess of the land ceiling, which may compel people to gradually change their life style and to conform to the norms laid down;

(i) that the prescription of a penal tax should also apply - by way of penal municipal rates - on all urban residential accommodation in excess of certain specified limits; and

(j) that if either of the above formulations, as in sub paragraphs (g) and (h) is found acceptable, the piecemeal acquisition of small bits and patches may be dispensed with, as unnecessary, as in any case not likely to help solve the housing problem.

10.4.14 The Committee also feels that the above should be accompanied by some positive steps to promote house building activity, as follows:-

(i) The present legislation, providing for concessions to employers for building houses for workers drawing emoluments upto Rs. 500 p.m. should be amended, and the facilities extended to the construction of houses for employees drawing upto Rs. 1000 p.m.

(ii) The present cost of construction materials is an inhibiting factor in large scale construction. For one or two storey houses, ordinary lime-mortar may be a good substitute for cement, which is in short supply. Unfortunately, the use of lime-mortar has slowly gone out of fashion and the production of good quality lime has also gone down. Another problem that arises is that modern architects do not favour the use of lime-mortar, and municipal approval for building plans is not available without the seal of a good architect. To remedy this situation, two steps are necessary - which are explained more fully in Chapter 21 on Cement, which item is currently in extreme short supply - first, a subsidy for the production of lime, to make this construction material cheap; and secondly, the banning of the use of cement for dwelling units of upto two storeys.

10.5 Approval of municipal authorities.

10.5.1 The Committee finds that the present municipal laws and procedures for the approval of house plans, are also acting as a strong inhibitory force in regard to urban house construction activity. Apart from the petty corruption involved in the process of approval, the standards set by the authorities - on the recommendations of professional architects - make all urban house building activity an expensive business. The Committee notes with regret that the use of ordinary lime-mortar has disappeared, and indiscriminate use of steel and cement is made for the construction of even relatively small houses. The Committee also notes that there are no standard designs available to the potential house builder, which would be approved automatically by the authorities. The evidence tendered to the Committee indicates that the time taken for according approval to any plan for house construction is avoidably long.

10.5.2 The Committee understands that all these regulations have been adopted in the interest of urban planning. The Committee would in this connection, make some very specific recommendations in regard to housing for the urban poor, as given below.

10.6 Housing for the poor

10.6.1 The Committee feels that no matter what action is taken, either to modify rent control or to imaginatively implement the Urban Land (Ceiling and Regulation) Act, the new house construction that is likely to take place can only touch the fringe of the housing problem in the coming year. In particular, the burgeoning needs of the low income groups cannot be met this way. Nor can the problem be met by Government sponsored construction alone.

10.6.2 One of the problems in getting houses to be increasingly self-financed and self-constructed is that the standards set for "conventional housing" - as designed by modern professional architects and approved for construction by municipal agencies, such as would be financed by a bank or by some other lending agency - are meant only for expensive housing. If the housing needs of the entire population are to be met by the construction of such houses, the required funds would not be available in the forseeable future, and the housing problem would not be solved for a long time. The sheer magnitude of the need for housing and the capital required, based on standards set by professional architects make the realisation of the task impossible. As a result, what is happening today is the development of shanty towns and slum areas all over, which are periodically pulled down, or regularised through social pressure but permitted to continue in unhygienic conditions and circumstances.

10.6.3 What is necessary therefore is the provision of facilities for self-construction of houses in urban areas by the poor, in much the same manner as the poor meet their housing needs in the rural areas, subject to certain safeguards.

10.6.4 The fact is that low income housing for the poor is not financed by outside agencies. The poor are poor credit risks; they do not also have the collateral that financing institutions require. And yet, the poor have the imagination to build inexpensive houses suitable to meet their minimum needs, at costs equalling a small fraction of the low cost housing which is developed by expert modern architects. The owner suits construction not only to his needs but also to his capacity to finance; and builds over a period. He takes an active role in the house building process not only as labourer but also as

his own architect, and makes extensive use of second-hand or reclaimed material. For the poor, furthermore, the house building process goes on for years and small bits are added from time to time as the need increases. This is how houses get built in rural areas and this is how housing can also get developed in urban areas provided a new approach to house building is considered.

10.6.5 What is, therefore, necessary is a new concept for low income housing where "sites and services" are provided by the authorities at subsidised rates so that proper sanitation and other facilities are available, and yet houses can be built to suit the pockets and the capacity of the poor. Such freedom to build can give a great impetus to house construction for and by the very poor. The Committee understands that this experiment has been tried with success in the Philippines where, apart from "sites and services" provided by Government, low-priced materials, technical assistance and various. other types of material help are also provided. The Committee also understands that investment in housing stock for the very poor has risen dramatically in the areas where such programmes have been initiated. The Committee considers that this is a possibility to which serious attention should be given. The Committee recognises that this approach would go counter to the dreams of the modern architect-cum-developer; and also need a new approach to the "Master Plans" that have been drawn up for most urban conglomerates. The Committee would still suggest that this experiment be tried out to test its applicability.

10.6.6 As indicated earlier, there are no standard designs available to the potential house builder which could be approved automatically by the authorities. To remedy the situation, the following steps are considered desirable:-

(a) A number of designs have been evolved by the CPWD, the NBO and by other public and private research institutions. These may include modular designs which may permit people to add to their houses as their need goes up or their finances permit. They should be compiled and publicised, and any buildings, conforming to any of those plans publicised should be automatically approved.

(b) Cheap, standardised construction materials should also be made available by the authorities, particularly to help the poor to build their own houses economically.

(c) For all other building plans, there should be a deadline for the accord of approval, and it should be necessary for the municipal authorities to indicate the specific parts of the design not approved and the reasons therefor.

Chapter 11

SUBSIDIES

11.1 Introduction

11.1.1 The subsidies given by the Centre have assumed considerable importance of late. Subsidies have increased from less than Rs.100 crores in 1971-72 to more than Rs.1712 crores in 1979-80 (Budget Estimate) 1/. According to the Draft Plan 2/ overt budgetary subsidies during the Plan period (1978-83) are likely to be as much as Rs.7399 crores, or say Rs.7400 crores. At that level, these would be 57 per cent of the estimated amount of additional resources to be mobilised (at Rs. 13,000 crores) during the Plan. There are also many implicit subsidies given in one form or another at the production, pricing and distribution stages to various public sector undertakings and public utilities. The latter are particularly important for the States, as the covert subsidy granted in the operation of public utilities like electricity, irrigation water, urban transport and urban milk supply scheme is substantial.

11.1.2 The approach of the Committee to the problem of subsidies has already been indicated in Chapter 4 on Approach. There is need for a thorough review periodically of the costs and benefits of all subsidies, since they have a tendency to be sticky, and also to snowball. In general, subsidies should be given to support low-income consumption, small and marginal rural production and labour intensive small unit, industrial production. Subsidies which do not serve these purposes, should be phased out.

11.1.3 Since subsidies are essentially a form of negative tax, they can affect both the direction and level of consumption and investment in a significant way. In a developing economy, where the market system has not yet developed properly, and where the distribution of income is extremely uneven and skewed, the forces of supply and demand cannot be allowed to operate unfettered. In this background, subsidies are a powerful instrument in the armoury of the Government for exercising control over the functioning of the economy.

11.1.4 The greatest advantage of subsidies lies in the tangibility of the cost as well as the measurability of the impact, which makes these superior to other instruments of policy. The possibility of their misuse or sub-optimal use and their continuance indefinitely - as a result of the pressure of vested interests - are their greatest disadvantage. As a result, subsidies could generate complacency and inefficiency, and lead to a general raising of the cost structure.

11.1.5 The relevance of subsidies has to be seen in the light of their objectives, which are briefly the following:—

(a) First, a subsidy could attempt to shift the allocation of resources along desired directions. For instance, an export subsidy would alter

---

1/ This figure does not appear in the Budget as the total subsidy. There could be different interpretations in regard to different items being designated as subsidies, though it has been argued later that a very substantial part of such payments is not of the nature of subsidy.

2/ Draft Five Year Plan (1978-83), pp. 57-58.

the 'effective exchange rate' in respect of the subsidised product, and thereby make the export activity more attractive vis-a-vis the domestic market. The benefit of such a subsidy has to be seen with reference to its cost.

(b) Secondly, one could subsidise the use of a particular input in the production process. The subsidy on fertilisers is an example. Apart from inducing greater use of fertilisers, a subsidy on fertilisers would also lead to an intersectoral income re-distribution.

(c) Thirdly, a subsidy may be given purely for reasons of the need to influence income distribution. This would include the cost of operating the public distribution system catering to the needs of low-income groups, or the subsidy on certain varieties of edible oils and on controlled cloth. The need for such subsidies is generally recognised. The two fold problems here are, first, to ensure that the benefits of the subsidy accrue to the target group; and secondly, to avoid the subsidisation of inefficiency in the distribution system.

(d) Fourthly, a subsidy may be given in the interest of employment,. This type of subsidy has been given in the past to maintain employment in the decentralised sector, and has been suggested in lieu of capital subsidies as a means of promoting activity.

(e) Fifthly, the objective of price stabilisation and of stability of supply may also justify the grant of a subsidy. It would be seen later in Chapter 12 on Foodgrains that the cost of maintaining a buffer stock of foodgrains would involve a subsidy which has to be necessarily met from the budget. But then such a subsidy can provide both consumer protection against shortfalls in supply in the event of a failure of the monsoon, and also prevent a steep decline in the income of the farming community in years of bumper harvest, and thus stabilise the domestic market. It would also protect the interests of the weaker sections of society in years of scarcity.

(f) Sixthly, public sector enterprises have to meet a multiplicity of objectives which result in losses which have to be subsidised from the Government budget. These losses could of course emerge due to operational inefficiency; or they could arise due to a deliberate pricing policy adopted by the Government in order to keep down the prices of certain essential items to avoid a cumulative increase in prices. There are also instances of deliberate investment decisions in certain areas, for strategic reasons in order to ensure a minimum supply of a strategic product. Again, certain subsidies, e.g. losses in respect of irrigation water supplies to farmers, or electricity rates charged to industrial users and farmers, or rates for urban or suburban transport, may reflect a conscious decision to subsidise the users of these public utilities. While covert subsidisation may be justifiable in some cases, it is important to —

(i) realise that an unrealistic pricing policy implies a subsidy to the consumers of the product; and

(ii) keep track of the beneficiaries of such subsidies and the costs of such subsidies.

(g) Seventhly, owing to the existing disparities between resource allocation and infrastructure facilities among different regions, a subsidy could be (and has in the past been) given to encourage the development of backward regions. This takes note of the reality that resources (particularly labour), are not perfectly mobile, and, therefore, the Government has to induce the flow of capital and other resources into these regions. While such subsidies have been traditionally given on the investment undertaken in backward areas, an alternative way to subsidise new forms of economic activity in backward areas would be to relate the subsidy payment to employment generated. Price equalisation for key items throughout the country involves a similar subsidy, though it does not necessarily involve any outgo from the Government budget.

(h) Finally, subsidies could also be disbursed with a view to provide greater equality of opportunities, for the development of certain backward communities or classes of people (such as Scheduled Castes/Scheduled Tribes).

11.1.6 The provision of subsidies raises several important issues, e.g. to what extent the subsidies actually reach the ultimate beneficiaries; how these are related to various forms of control and regulations; what the 'leakages' in the disbursement of these subsidies are; and what factors if any reduce their effectiveness.

11.1.7 Controls themselves imply 'indirect' subsidies to certain sectors or sections of the population. For instance, investment and production controls tend to confer a near monopolistic position to existing producers, while price control provides a subsidy to the consumers lucky enough to get the product at controlled prices. While the effects of direct subsidies are easy to identify, the effects of indirect or implicit subsidies (arising from controls) cannot always be identified.

11.2 Level of extant subsidies

11.2.1 Annex 11.1 presents data on the important Central Government subsidies from 1971-72 to 1979-80 (BE). Annex 11.2 presents detailed figures of subsidies - of Rs. 4 lakhs and above each - as per the Central Government budget, for the years 1976-77 to 1979-80. It would be seen that subsidies have grown rapidly in recent years.

11.2.2 It would also be seen that food subsidy, fertiliser subsidy, and cash assistance for export promotion together account for as much as Rs. 1343 crores, or as much as 70 per cent of the total budgetary subsidy of Rs. 1712 crores in 1979-80. Of these, the first and third, and interest subsidy to public sector undertakings have been a regular feature of budgetary subsidies during this decade. Since 1976-77, fertiliser subsidy has also assumed an important position, although the import of fertilisers has been subsidised in the past also. The subsidy on fertilisers has grown to be the second most important subsidy in magnitude, next only to food subsidy.

11.2.3 Export subsidies are discussed in Chapter 8 on Import and Export; food subsidies in Chapter 12 on Foodgrains; the subsidy on raw cotton, controlled varieties of cloth, handloom and khadi in Chapter 15 on Textiles; and the subsidy on fertilisers in Chapter 17 on Fertilisers. The conclusions from these chapters have been briefly indicated in the summary of findings and recommondations. There would be no detailed discussion on these four subsidy items in this Chapter. The important issues discussed in the following paragraphs concern —

(i) Interest subsidy given to public sector undertakings.

(ii) Certain other large value subsidies as per Annex 11.2.

(iii) Some of the large developmental outlays as per Annex 11.3, which may be deemed to be of the nature of subsidies.

(iv) Losses of Central Government undertakings as per Annex 11.

(v) Losses of State Government undertakings.

11.2.4 A point of some importance which may be highlighted arises from the budgetary classification of expenditures which are really of the nature of subsidies, but which are not shown as subsidies but are hidden in other transactions, which is often misleading. The following illustrations are worthy of note:—

(a) As would be explained in greater detail in Chapter 17 on Fertilisers, the subsidy on imported fertilisers is not shown in the budget directly as a subsidy, and has to be deduced from the Demands for Grants of the Ministry of Agriculture and Irrigation, from outlay on purchases of fertilisers read with recoveries from the sale of fertilisers.

(b) There are a number of items in the Demands for Grants of the different Ministries which are shown as "Subsidies", which are really not of the nature of subsidies but of developmental outlays. For example, "Assistance for production of Breeder Foundation/certified seed of pulses", or "Subsidy to National Seeds Corporation under Intensive Jute Distribution Programme", or again "Subsidy to Market Committee - Scheme for Development of regulatory Markets" should not be designated as subsidies. Nor should the grant of Rs.20.7 crores to State Governments (in each of the years 1978-79 and 1979-80) for the Malaria eradication programme, be treated as a subsidy. A perusal of Annex 11.3 would bring out many other such outlays classified as subsidies which are not really so.

(c) Likewise, there are many Grants-in-aid which are really subsidies, and many others which are grants for developmental purposes. A perusal of Annex 11.5 would indicate this. Grants to the Indian Dairy Corporation for Operation Flood programme operates directly as a subsidy to the Corporation, and the losses of the State Governments' dairy schemes are to that extent understandable. On the other hand, many grants-in-aid may be deemed to be of the nature of developmental outlays, e.g. grants for the development of the co-operative movement, or grants for research to the Seed Corporation.

11.3 The pattern of subsidies

11.3.1 It would be desirable at this stage to bring up the findings of the Committee on subsidies on foodgrains, on fertilisers, on exports, and on controlled cloth, handloom and khadi, all of which have been discussed in the respective chapters on these items, before drawing broad general conclusions in regard to the pattern of subsidies and on their nature and extent.

11.3.2 It has been found that in respect of foodgrains, there are two elements in the subsidy, one for the maintenance of buffer stocks and the other for food distribution. The Committee feels that the former is a legitimate charge on the budget. As for the latter, the Committee feels that a subsidy on food distribution should be paid only to the extent that such distribution caters to the requirements of the weaker sections of the population. The present coverage of fair price shops is inadequate for this purpose. The Committee also feels that the subsidy in public distribution should be only on meeting the requirements of essential items of consumption of those below the poverty line.

11.3.3 As far as the subsidy on fertilisers is concerned, there used to be three elements in the subsidy, with a fourth one added recently, in the 1979-80 budget. First, a subsidy is paid today in respect of imported fertilisers. The Committee finds that this subsidy arises also because of inefficient handling and is not due entirely to the higher cost of imported fertilisers. The higher than necessary cost of handling is not easily seen due to the manner of treatment of the subsidy in the budget, as well as in the summary accounts of the Food Corporation of India. This subsidy can be eliminated. Secondly, the largest element of subsidy on fertilisers arises from the subsidy on indigenous nitrogenous fertilisers, in respect of which the average cost of production within the country substantially exceeds the pooled average ex-factory price in the build-up of the retail price. For reasons indicated in Chapter 17 on Fertilisers, the Committee feels that such a subsidy should be gradually phased out, say, over a period of three years, and should be replaced by higher subsidisation of fertiliser consumption by the small and weaker farmers under the Integrated Rural Development Scheme, by increasing the extent of outright grant available under that Scheme to the small and marginal farmer. The third element in the fertiliser subsidy is given on indigenous phosphatic fertilisers which in the opinion of the Committee, is justified over a short period of, say, three years as a promotional measure, in order to encourage the use of more balanced fertiliser mix. A fourth element in fertiliser subsidy introduced in the 1979-80 budget, namely freight subsidy on fertilisers, is a part of the total problem of pricing of fertilisers, and should be phased out by appropriate increase in the price of fertilisers in three years.

11.3.4 The Committee feels that there is a case for a larger subsidy than available as of today for encouraging the use of organic fertilisers, which can be done by increasing the subsidy on gobar gas and on compost pits in rural areas as well as on utilisation of urban wastes for purposes of composting.

11.3.5 As far as export subsidies are concerned, the Committee would suggest that these be limited to (a) the cumulative burden of indirect taxes in the cost of production of export items; and (b) the promotional expenditures and market development and to the neutralisation of freight disadvantage in respect of new and distant markets. The Committee would also recommend the continuance of the present subsidy on interest on working capital used in the production of export items - currently available in the

form of "export packing credit", so as to offset similar concessions granted by other countries. Another facility given to exporters is the system of drawback of duties paid by the exporter-manufacturers in the process of production, which should continue. The Committee also feels that there should be stability in regard to these policies over a period, and that the policy should have a tenure of three years, to enable export production programmes to be drawn up on a sustained basis.

11.3.6 Finally, as far as the present set of subsidies on textiles is concerned, the Committee feels that there is no justification for any subsidy on imported cotton; the subsidy on controlled varieties of cloth would be justified if proper arrangements are made for the distribution of controlled cloth among the really vulnerable sections of the population; and finally, the subsidy on handloom and on khadi is justified in the interest of employment. In regard to controlled cloth, the Committee feels that the subsidy on handlooms for production of controlled varieties of cloth would subserve two basic objectives at the same time, namely income support to the handloom weaver and subsidisation of the consumption of the poorer people who generally use the coarse varieties of handloom dhotis and sarees. For the rest, the distribution of controlled cloth has to be carefully monitored so that the subsidy does in fact reach the target group.

11.3.7 The Committee would like to reiterate the need for increasing the extent of subsidy at present given to the weaker sections of the population in the rural areas by increasing the percentage of assistance, and therefore the quantum of assistance in the form of a grant. This is given under different schemes for Small and Marginal Farmers and Agricultural Labourers, to backward and hilly regions, to tribal people, and under various other schemes incorporated into the Integrated Rural Development Scheme or under programmes recently initiated by a number of State Governments under the Antyodaya Programme. The Committee feels that any additional outlay on this account would be a justified charge on the Central budget.

11.3.8 The Committee would also recommend that the present extent of assistance made available to different State and local authorities in the event of natural calamities should be significantly increased. Different parts of the country are subject to recurrent natural calamities like cyclones, floods, droughts, earthquakes, avalanches etc., and the devastation caused by these natural calamities involves a capital loss to the poorest sections, in addition to loss of production, income and employment, for which the Committee feels the present allocation to be wholly inadequate. Indeed, to the extent that such natural disasters are a regular occurrence in some part of the country or the other, the Committee feels that a much larger allocation should be available for meeting such national disasters and situations of capital losses as a legitimate burden on the taxpayer in the whole country to give succour to the needs of the affected population. A minimum amount of 1 per cent of the Central and State Government budgets should be so earmarked as relief against natural calamities.

11.4 Interest subsidy

11.4.1 Interest subsidies from the budget are of two kinds: subsidisation of any sector through the grant of concessional rates of interest; and subsidies to public sector undertakings which are unable to pay the interest on loans granted earlier by Government.

11.4.2 The Soft Loan Scheme initiated by the Industrial Development Bank of India in 1976, for modernisation, replacement and rehabilitation of five selected industries,

also involves a subsidy, though as at present operated, there is no budgetary outgo on this account. Comments, nonetheless, have been briefly made on the operation of the scheme for the textile industry, in Chapter 15 on Textiles. Some general comments have also been made in this connection in Chapter 26 on Credit Control. The Committee would only wish to comment here that interest subsidies generally have the perverse effect of encouraging capital intensive technology. They are not justified except for sectors like shipping and for export packing credit - inasmuch as the credit in the latter case is for working capital requirements - where the sectors enjoying interest subsidy have to compete with foreign parties enjoying similar, and sometimes even greater concessions.

11.4.3 The covert subsidy implicit in the scheme of differential rates of interest (DRI) operated by commercial banks has been discussed later in Chapter 26 on Credit Control.

11.4.4 A budgetary subsidy involving interest subsidy pertains to the Khadi and Village Industries Commission, which borrows from Government at $7\frac{1}{2}$ per cent and lends the capital required by village artisans at zero interest to the khadi industry and at 4 per cent to village industries, the loss being reimbursed as a subsidy to the KVIC. The budget provision for 1979-80 for this subsidy is Rs.15 crores. Similar subsidies are granted to a number of other agencies, the largest item being the grant to the Shipping Development Fund Committee, to meet the difference between the rate of interest payable for the acquisition of ships on commercial credit terms, and the rate charged from the shipping companies. These are clear subsidies; and these are all given with deliberation, as a matter of policy, and are clearly shown as such.

11.4.5 Interest subsidies are also given to various public sector undertakings from time to time, and these payments raise a number of issues which need to be pondered over. The largest recipients of such "interest subsidies", and the maximum amount obtained by them as interest subsidy over the past years, have been the Steel Authority of India Limited in respect of interest on loans given for/to Bokaro and Durgapur (Rs.68 crores in 1977-78); Indian Iron & Steel Company (Rs.4 crores in 1977-78); National Mineral Development Corporation (Rs. 12 crores in 1978-79); Heavy Engineering Corporation (Rs.4 crores in 1977-78); and the Indian Drugs and Pharmaceuticals Limited (Rs.6 crores in 1979-80).

11.4.6 The interest subsidy to the above public sector corporations stems from a mistaken approach. For Bokaro, the interest subsidy arose from the interest due on borrowed capital during the construction period. The normal business practice is to capitalise such interest payments. An alternative would be to increase the equity. But for other (existing) projects like Durgapur Steel Plant or the NMDC or the HEC, the modus operandi has been as follows. In certain years, the cash losses of these undertakings have been financed by loans from the Central Government budget. Where the undertakings are not able to meet the interest payments due on these loans in subsequent years, an interest subsidy is paid to these undertakings.

11.4.7 It will be seen in Chapter 19 on Steel that the steel industry has been subject to a tight administrative control over prices. Steel prices have not, on occasion, been equal even to the cost of production. There have of course also arisen teething

problems, and capacity utilisation has been sub-optimal. It is frequently argued, therefore, that the losses of the steel industry have been due to inefficiency. Nonetheless, the pricing policy of steel has been such that a plant like Bhilai would have incurred losses even with 90 per cent capacity utilisation. It would also be seen in Chapter 19 that in the early seventies, when the prices of steel should have been raised, what was raised was the excise duty on steel and not the steel price. To control the product price to an unrealistically low level without a cost study by an independent authority like the Tariff Commission or the BICP, to finance the current losses of the undertaking by way of a loan when the excise duty is being raised simultaneously, and thereafter to designate the interest due on these loans as a subsidy, is not a sound procedure. The subsidy in this case is the direct outcome of the control on steel prices. The covert nature of the subsidy also hides the extent of the subsidy to the consumers of steel, which would have come out clearly if the entire loan to cover the loss were to be shown as a subsidy.

11.4.8 The Committee feels that where prices of a product are to be kept low as a matter of policy, it would be desirable to designate the entire amount required for meeting current losses as a subsidy, rather than merely the interest payment due on the amount required to be lent to cover the cash losses. Such an outright subsidy would then be seen at once as a subsidy to the consumer, so that attention of the Parliament and of the public can be focussed on the problem. To designate the interest payment as a subsidy does not bring out the true nature of the problem, since the impression created is one of inefficient operation of the undertaking which is unable to meet even its interest liability. Also to saddle the manufacturing unit with a continuing burden of loan given to meet cash losses, is also not good for morale.

11.4.9 It may, of course, happen that an enterprise is in strictly temporary difficulties, either for reasons of sudden demand recession, or for other reasons. Not all undertakings face the problems faced by the steel industry, and for many, there is no price control on the products. In such circumstances, it would be justifiable to give a loan to the enterprise so as to allow it to recover, the loan to be repaid in better times. The loan in such cases is best obtained from the banking sector. Where the capital of the company has been eroded by losses, and the undertaking is unable to obtain commercial bank credit, an outright subsidy or an increase in subsidy rather than a loan is again desirable so that the attention of Parliament and of the public is focussed on the undertaking, and a conscious decision can be taken on the long term plans for its modernisation, diversification and viability. Indeed, since there does exist a separate budget head - subsidy to sick industries - which is not used to any significant extent, the Committee feels that units which need a clear subsidy for some time should be financed out of such clear-cut subsidies. The allocation under this head is today quite small, and hides the nature and the depth of the problem.

Subsidy to BGML

11.4.10 A special example of losses incurred by a public sector undertaking, owing to a distorted price policy, is the Bharat Gold Mines Limited (BGML). Until October 1976, this company was required to hand over its entire gold output to the Government at the previous IMF price of Rs. 84.80 per 10 grammes, when the market price was around Rs. 550 per 10 grammes. This was substantially below both the international and the domestic price of gold. The revenue deficit of the company, i.e. the difference between

the cost of production and the sales realisation, was subsidised by Government. This subsidy has been as follows:—

	(Rs. crores)
1972-73	4.25
1973-74	4.00
1974-75	6.35
1975-76	5.57
1976-77	6.27
1977-78	10.50
1978-79	10.30
1979-80	9.90

It may be noted that the subscribed capital of the company was only Rs. 11.70 crores, and cumulative losses would by now have wiped out the capital several times over, owing to the pricing formula. In fact, the pricing formula for the BGML was such that the larger the output, the greater would be the loss.

11.4.11 The policy was reviewed by the Government in 1976-77, and again in 1977-78. The latest procedure is that the price to be paid by the Government for gold to the BGML would continue to Rs.84.80 per 10 grammes, but that BGML would be paid a subsidy equal to the difference between the RBI's average gold auction price minus a certain servicing cost and the official gold price (at Rs.84.80 per 10 grammes). In the absence of RBI gold sales, the price would be equal to the BGML's cost of production plus a 12 per cent return on capital, subject to —

(a) a minimum price equal to the average international price in the preceding month, and

(b) a maximum price equal to the average international price in the previous month plus 25 per cent.

Thus, while the BGML runs up a heavy cash loss, it receives a subsidy to make up the mythical loss. To the outside public, it appears as if another public sector undertaking runs at an enormous loss, requiring a subsidy of nearly Rs. 10 crores every year, nearly equal to its capital. With the current international gold price hovering at around $290 per ounce (December 1978), the designation of the difference between this price and $ 42 per ounce as a subsidy is clearly a misnomer, particularly when the Government and the RBI have been selling gold to the public at more than the international price.

Subsidy to State Electricity Boards on Aluminium

11.4.12 The subsidy to State Electricity Boards in respect of aluminium has been taken off recently. This matter has been referred to briefly in Chapter 20 on Non-ferrous Metals, and reflects a roundabout and inefficient system of price control. Briefly, the subsidy arose in 1975, when a dual pricing system for aluminium was evolved. For 50 per cent of the output - in the form of electrical conductor grade aluminium - the price was to be equal to cash cost excluding depreciation. This aluminium was intended for the manufacture of conductors, required for the power transmission programme of State Electricity Boards. The balance of the commercial grade aluminium was free of price control. In order to prevent leakages, an additional excise duty was

levied on conductor grade aluminium, raising the market price of such aluminium to the level of commercial grade aluminium. State Electricity Boards were later paid a subsidy of Rs.3130 per tonne of aluminium, on the basis of the aluminium content of conductors purchased by them for the power programme. In essence, the effect was that all other consumers of aluminium had to subsidise the aluminium required for the power transmission programme, and this was achieved through a complex system of taxes and subsidies. It is not clear why the State Electricity Boards could not be subsidised directly from the budget for their transmission programme. Whatever the justification of the intended subsidy it could have been given directly via the budget provided that the subsidy were deemed to be really necessary. However, as indicated earlier, the subsidy has been removed, and the policy on aluminium pricing changed recently. The example is cited here only as an instance of a highly complex price control-cum-subsidy scheme; the objective could have been served by a simple direct subsidy to the State Electricity Boards.

11.4.13 There are some other subsidies given by the Central Government, on which brief comments may be made. There is subsidy on coal - Rs.5 crores budgeted for 1979-80 - which is paid for the higher freight by the rail-cum-sea route. This has been given partly in order to keep the coastal shipping trade going, as a matter of policy, and partly also to relieve the bottleneck in rail transport that is likely to arise in the absence of coastal movement of coal. This is a direct subsidy, unconnected with the covert subsidy of some Rs.140 crores per year at present rates, arising from the uneconomic pricing of coal — which is referred to in Chapter 18 on Coal. Together with freight subsidy for Andaman & Nicobar Islands and for Haj pilgrims, the freight subsidy on rail-cum-coastal movement of coal subserves an accepted objective of policy by way of maintaining a coastal fleet. Another incidental advantage is that pressure on internal transport is thereby avoided.

11.4.14 The Committee would recommend extension and enlargement of the transport subsidy to cover the minimum essential needs of the hilly, backward and far-flung regions. The transport subsidy given to hilly areas is, as of today, so limited in scope and coverage and so complex in the matter of disbursement that barely a few lakhs of rupees have been disbursed by the Ministry of Industry in a few years.

11.4.15 The Committee would like to refer in this connection to a memorandum received from the Government of Himachal Pradesh, giving the total cost of subsidisation of the transport cost - to each 'taluka' — of all essential articles including salt, sugar, kerosene oil and soft coke. According to the Himachal Pradesh Government memorandum, the total cost of such subsidisation, affecting an estimated population of 37 lakhs, would be no more than Rs.80 lakhs per annum. For covering the entire population in hilly areas - prorating subsidy - the amount required may be no more than, say, Rs.8 crores, or at the outside, Rs.10 crores. The Committee would strongly recommend such a subsidy to help the people in the hilly and far-flung regions of the country, so as to draw them into the main stream of the country's economic activity.

11.4.16 A subsidy is also given for the setting up of new units in backward areas. The budgeted amount for 1979-80 is Rs.10 crores, though the Revised Estimate for 1978-79 is Rs.14 crores.

11.4.17 The Committee has received divergent recommendations on this subsidy from different States, and the Committee would like in this connection to mention the views of

the most backward States: first, that the really backward areas deserve a higher subsidy than 15 per cent of capital expenditure or a maximum of Rs. 15 lakhs as granted at present; and secondly, that there should be no competitive concession given by the developed States as the backward States do not have the resources to match the concessions granted by the developed States. The Committee agrees with both the above points. The Committee has been informed that even in a developed country like the UK, the subsidy given for relocating industries in the new 'development areas' has been as much as 50 per cent of the cost of relocation.

11.4.18 The Committee would make two observations in this connection. The Committee is convinced that a subsidy on employment would be a better way to subsidise new activity, and to promote the development of backward areas. The Committee has been informed that there are numerous practical difficulties in the way of operating any such subsidy system. For one thing, there are no such clear-cut, objective criteria such as investment in physical assets, in operating such a system. Then again, employment may fluctuate.. But this, to the Committee, is an added justification for an employment subsidy. Data on employment have to be maintained for purposes of the Factories Act and the Payment of Wages Act. It should, therefore, be possible to disburse the subsidy, with appropriate cross checks by way of output - and excise duty paid thereon.

11.4.19 The second point that the Committee would recommend in this connection is a "sliding scale" in respect of backward areas subsidy to meet the needs of the most backward regions of the country.

11.4.20 Another subsidy in the budget concerns the subsidy to the HUDCO (Rs.3.6 crores in 1979-80). The Committee feels this subsidy is too small to make any impact. Although housing subsidy has a long history, the progress of public expenditure on housing for the poor has been tardy. The enormity of the requirement of new housing, particularly for the vulnerable sections of the population, has been indicated earlier, in Chapter 10 on Housing and Construction Activity. The Committee recommends that urban housing for the poor requires a larger subsidy than given so far, which could be disbursed as interest subsidy on capital invested, to as many organisations and institutions as may be able to undertake a bold housing programme.

11.4.21 There is a budgetary subsidy to State Governments to re-imburse them for loss of the sales tax on supply of aviation fuel to international airlines. This is essentially a fiscal support to State Governments, and is not a subsidy; and should not be designated as such. The transfer of resources to States cannot be deemed to be a subsidy, except where a subsidy is to be given specifically for a designated group of beneficiaries through the State Governments, as for instance under the Marginal Farmers and Agricultural Labourers Scheme, and various other schemes intended for the rural poor, now reconstituted under the Integrated Rural Development Scheme.

11.4.22 The only other significant subsidy, so designated, is the amount earmarked for and given to victims of cyclones, floods, drought and other natural calamities. The provision for this has been reduced from Rs.40 crores (RE for 1978-79) to Rs.10 crores (BE for 1979-80). This is totally inadequate, considering the magnitude of capital loss suffered every year, not counting the loss of production and income. The Committee has already recommended the earmarking of 1 per cent of the Central and State budgets for this purpose every year.

11.5 Losses of public sector undertakings

11.5.1 It would be seen from Annex 11.4 that cash losses of Central Government undertakings in 1977-78 - the latest year for which the accounts of the undertakings 3/ are available - were Rs.398.44 crores. In other words, something like Rs.400 crores would need to be added to the budgeted figure of approximately Rs.1560 crores of losses, making the Central Government losses alone as much as around Rs.2000 crores per year.

11.5.2 Latest data for all undertakings are not available, and it is therefore not possible to give the total magnitude of the losses of all losing Central Government undertakings. But the losses of Coal India alone have now increased to Rs.140 crores during 1978-79.

11.5.3 The views of the Committee in regard to the losses incurred by public sector undertakings have already been indicated, and may be briefly summed up below:—

(a) The pricing policy of public sector undertakings, particularly where they are monopoly producers, should be such as would give a reasonable return on capital, assuming reasonable norms of efficiency and of capacity utilisation. Where it is desired to keep down the price of a key item in order to keep down the general price level, Government should give a direct price subsidy rather than make the undertaking suffer losses.

(b) If this is done, the "interest subsidy" at present being given to such undertakings in respect of loans given earlier to cover past cash losses, would become unnecessary.

(c) Loans to "sick" undertakings (e.g. sick mills taken over by Government) are again futile except insofar as productive loans for diversification/modernisation are concerned. Loans to cover losses should be designated as subsidies so as to focus public attention on the status and functioning of these sick units.

11.5.4 As an expert group 4/ has aptly put it —

> "Experience shows that some subsidies become excessive simply through inertia and drift, or government's aversion from altering prices for many years despite the effects of inflation and devaluation on costs. Subsidies could then become quite disproportionate".

It is for this reason that it is suggested that a system of overt subsidisation should be followed in all such cases, so as to focus the attention of the public and of Parliament to the nature and extent of such subsidies.

3/ See, Bureau of Public Enterprises, Ministry of Finance, New Delhi: Annual Report on the Working of Industrial and Commercial Undertakings in 1977-78; Manager of Publications, Delhi, 1979.

4/ Report of the Working Group on Prices and Costs; Seminar on Investment and Return Criteria in Public Enterprises; Asia and Pacific Development Administration Centre, Kuala Lumpur, August 1977.

11.6 Subsidies given at the State level

11.6.1 The same principles would generally apply in respect of State undertakings and operations such as electricity supply, irrigation, public transport, urban milk supply, and similar activities.

11.6.2 The Seventh Finance Commission has brought out the extent of such subsidies. But insofar as these operations are concerned, quite apart from heavy subsidisation involved, there also arises the problem of defaults, arrears and inefficient collections. These make for a substantial difference between the accounts and the reality, a very large part of receivables being of the nature of bad debts.

11.6.3 Some of the figures given in the Seventh Finance Commission report are revealing. For irrigation, for instance, the total investment as on 31.3.1979 is stated to be Rs.6347 crores. The arrears in 1978-79 are given as Rs.59 crores against the demand raised in 1978-79 at Rs.103 crores. That is, arrears are as much as 57 per cent of the demand. The Commission has estimated gross receipts during 1979-80 to 1983-84 at Rs.894 crores, and working expenses for irrigation at Rs.705 crores and for flood control at Rs.139 crores. Leaving out the latter, the gross return from irrigation schemes in the five year period would be Rs.189 crores, or an annual rate of Rs.38 crores. Assuming no increase in the capital, the interest on Rs.6347 crores @ 9 per cent would be Rs.571 crores per annum. The deficit on interest would thus be as much as Rs.533 crores annually, not projecting any increase in capital.

11.6.4 The net deficit on minor irrigation schemes during 1978-79 is given by the Finance Commission as Rs.66 crores.

11.6.5 The Electricity Boards are stated to have an investment, as on 31.3.1979, of Rs.7370 crores. The net return, for each year over 1979-80 to 1983-84, after deducting excise duty and electricity duty, is estimated at Rs.220 crores. In order to allow for excise and electricity duty, the return on capital may be calculated say, at 6 per cent. On an investment of Rs.7370 crores, the interest works out to Rs.440 crores annually, giving a deficit of Rs.220 crores per annum.

11.6.6 The losses of the losing State road transport undertakings in 1976-77 – the latest year for which figures are given in the Seventh Finance Commission report - work out to Rs.28 crores.

11.6.7 The share capital of State public enterprises as on 31.3.1979 is given at Rs.976 crores. The net profit after tax is given as minus Rs.13 crores (i.e. a net loss of Rs.13 crores) in 1975-76 and as Rs.3 crores in 1976-77.

11.6.8 The States' share in the capital of co-operative societies, similarly, as of 31.3.1979, is given in the Seventh Finance Commission report at Rs.892 crores. The rate of return on States' share in the capital of co-operative societies in 1976-77 is given at 1.15 per cent only, and the interest received from Government loans to co-operative societies at 5.96 per cent.

11.6.9 Leaving out the co-operatives - as a form of organisation to be encouraged - the return from State Government undertakings would be seen to be way below a return equal to even the concessional rate of Government loans to public sector undertakings at 9 per cent.

11.6.10 Adding up the above overt subsidies given by State Governments, as given in the Seventh Finance Commission Report 5/, the annual amount of subsidisation by State Governments would be seen to be of the order of Rs.1000 crores. This does not include direct subsidies given by the State Governments.

11.6.11 It is, of course, legitimate for Government to subsidise certain activities. The point that the Committee would wish to reiterate is —

(a) that subsidies are best given directly, in an overt manner, so that the extent of subsidisation can be publicly known and debated, and inefficiency in operation reduced; and

(b) that it is important to consider who benefits from the subsidies so that subsidies which do not support the income and consumption of the weaker sections of the population or do not help to support tiny unit decentralised production, can be phased out.

5/ Report of the Seventh Finance Commission, 1978, Appendices and Annexures, pp. 41-98.

Chapter 12

FOODGRAINS

12. 1 Introduction

12. 1. 1 Expenditure on food constitutes some 70 per cent of consumer expenditure in rural areas and more than 60 per cent in urban areas. The control system in India began after the beginning of the Second World War with its main focus on food. Control over food prices and public distribution of foodgrains have continued in some form or the other - with one or two brief periods of interruption - ever since food control was first introduced during the Second World War.

12. 1. 2 The output of foodgrains in India has increased from 55. 0 million tonnes in 1950-51 to 125. 6 million tonnes in 1977-78. While the rate of growth of food production has averaged 3 per cent per annum compressed over these long years, yearly food output has been marked by severe cyclical fluctuations arising from weather conditions. As a result, there have been periods of heavy dependence on import of foodgrains coupled with statutory rationing extended to all urban areas and even some rural areas in deficit States. Annex 12. 1 gives the output, imports and total availability of foodgrains in India, over 1951-1978.

12. 1. 3 Of the gross cropped area of 127 million hectares under foodgrains today[1/] as much as 93 million hectares are unirrigated. This makes food output in India very much a gamble on rains. This constitutes the first problem in the management of food policy.

12. 1. 4 It is not necessary at this juncture to dilate on the severity or amplitude of fluctuations in foodgrains output. Changes in output from year to year of as much as 20 per cent have been witnessed within recent memory, as for instance when foodgrains output declined from 89. 4 million tonnes in 1964-65 to 72. 4 million tonnes in 1965-66; and again in 1975-76 when foodgrains output increased to 121 million tonnes from 99. 8 million tonnes in 1974-75. These sharp changes in the year to year availability of food supply underline the problem of management of food policy.

12. 1. 5 Although the output of rice and wheat has of late increased significantly, as a result of the introduction of high yielding varieties of seeds and other inputs like irrigation water, fertilisers and pesticides, no such increase has been achieved in respect of millets and pulses. In fact, the output of pulses has shown a stagnant trend over the past three decades. There has also been only a negligible increase in the output of millets - grown mainly in dry areas - mainly because of increases in jowar and maize. Since millets and pulses constitute the major staple diet for the weaker sections of the population in many parts of the country - and since pulses constitute almost the only form of protein for such people - the lack of growth of output of millets and pulses poses the second problem of management of food policy.

1/ Figures for 1977-78, as per the All India Final Estimates of Principal Crops 1977-78 (Dte. of Economics and Statistics, Ministry of Agriculture and Irrigation).

12.1.6 Some of the problems which are of relevance in a study of controls and subsidies on foodgrains stem from the organisation of the farm economy. According to the all-India agricultural census of 1970-71 there were 70.5 million operational holdings in India over an aggregate area of 162 million hectares, the average size being 2.30 hectares. Of these, only 12 million holdings were wholly irrigated, and 17 million holdings had part of the area under irrigation. As many as 41 million holdings were wholly unirrigated.

12.1.7 Around 35.7 million operational holdings, or more than half of the total are of less than 1 hectare of land. Such marginal and sub-marginal holdings, that is, those with less than one hectare of land, operate over an area of 14.5 million hectares, Thus, more than half the holdings are spread over only 9 per cent of the total area cultivated.

12.1.8 As of 1977-78 out of the gross cropped area of 173 million hectares, pulses account for an aggretate area of only 23.5 million hectares, that is a little more than 13 per cent. However, like millets, the cultivation of pulses is mainly under rainfed conditions, three-fourths of the area under pulses being unirrigated.

12.1.9 The size of a very large proportion of holdings is not adequate to grow enough food even for the cultivating family. This poses a special problem of distribution since such families are net buyers of food. This also raises the problem of identification of beneficiaries of price control, price support, subsidisation of various inputs (including irrigation water and electricity) for the farm sector. The effective distribution of foodgrains to ensure a reasonable supply to the weaker sections of the population in lean months even in years of good harvest has therefore remained a major problem. It is also noteworthy that even during periods of maximum supply of foodgrains from the public distribution system there has been little supply of millets or pulses. In effect, thus, while the public distribution system has been able to meet the requirements of the urban population generally, with varying degrees of success, it has not succeeded in reaching foodgrains at a reasonable price to the rural poor. Even for urban areas, several problems have arisen in regard to public distribution; namely, its effectiveness for the vulnerable sections, its coverage and its cost. These issues would be discussed more fully later.

12.1.10 The Committee notes that the control system in India had its genesis, during the war, in the controls imposed on the price, movements and stocking of foodgrains. The somewhat tortuous course of controls on foodgrains has been indicated earlier, in Chapter 2 on the History of Controls. The Committee would like to refer to only three aspects of the history of controls on foodgrains:

(a) The frequent changes in the restrictions on movements of different foodgrains; the formation of State-wise zones in regard to wheat and broad regional zones in regard to rice; and the attempt to cordon off surplus areas from deficit areas, with a view to facilitate procurement and in particular, to cordon off the main industrial and metropolitan areas with a view to prevent these areas from sucking in a disproportionate share of the marketable surplus of grain in the country; and finally, the abolition of the zonal restrictions on the movement of wheat from April, 1977 and of rice from September 1977, as a result of the increased output and comfortable position of food stocks in the country;

(b) the brief experiment at take-over of the wholesale trade in wheat in April 1973 (during the 1973-74 rabi season); and

(c) the emphasis, of late, on price support measures rather than on price control; and thebuild-up of a buffer stock of wheat which has provided the basis for effective price management and for price stability.

12.2 Controls over foodgrains

12.2.1 There have in the past been several types of controls over foodgrains which are briefly indicated below:—

(i) Price control: This has ranged from control over procurement price to control over the retail price of goodgrains to be sold from fair price shops. The present system is to announce a support/procurement price - fixed after considering the recommendations of the Agricultural Prices Commission. The retail prices of foodgrains sold from fair price shops are also regulated.

(ii) Distribution control: In areas which have been under statutory rationing, there has been total control over the distribution of foodgrains - in the main rice and wheat - the prices and distribution of which have been regulated. There has also been compulsory procurement/levy of various types, imposed from time to time, though now the problem is increasingly becoming one of economic and effective procurement machinery at the support price, at least for wheat. A brief experiment at the take-over of the wholesale trade in wheat in 1973-74 was given up the following year, as the policy did not succeed. At present, there is no distribution control except for Calcutta and the Asansol-Durgapur industrial belt.

(iii) Movement control: The genesis of movement control was the desire to cordon off surplus and heavily deficit areas, the former in order to help procurement and the latter in order to enforce regulated distribution and to avoid the large purchasing power in these areas sucking in a disproportionate quantum of food supply. With the increasingly comfortable position in the matter of food supply, there are at present no restrictions on the movement of foodgrains except for Calcutta and the Durgapur-Asansol industrial belt where statutory rationing has been maintained by the West Bengal Government. The Government of West Bengal has also maintained movement control over paddy/rice beyond its borders.

(iv) Control over stocks/licensing of dealers/other miscellaneous controls: The licensing of dealers in important foodgrains was a part of the initial Foodgrains Control Order of May, 1942, and has continued ever since. The licensing system, now regulated under the Essential Commodities Act, is enforced by the State Governments, requiring the maintenance, inter alia, of stock registers and particulars of purchases/sales. Fairly strict limits are also laid down for the size of stocks to be maintained. While there has been relaxation of the stock limits in respect of cereals, the Pulses, Edible Oilseeds and Edible Oils (Storage Control) Order specifies strict limits for the stocking of pulses.

(v) Control over flour milling/rice hulling:
There have been separate controls over flour milling and rice hulling which would be discussed later, since both controls are currently in operation and involve not only some issues in principle but also certain operational and practical problems.

12.3 Subsidies on foodgrains

12.3.1 There have been three types of subsidies on foodgrains, as categorised below:-

(a) Subsidy in regard to imported foodgrains which have been sold at a price well below the purchase price in the interest of price stability and of reasonableness of food prices; these are now tapering off.

(b) Subsidy to meet the cost of the buffer stock of foodgrains, the current level of such stocks being as much as 20 million tonnes.

(c) Subsidy to meet part of the cost of public distribution, inasmuch as the sale price of foodgrains from fair price shops is less than the procurement price plus handling and transportation costs of foodgrains.

12.3.2 There are also some other policies which have been represented to the Committee as involving a subsidisation of one set of the farming community vis-a-vis others.

12.3.3 In the evidence tendered before the Committee, several State Governments have represented that the price parities now effective in respect of different foodgrains, and in particular in the matter of rice and wheat, favour only the growers of wheat, as compared to rice or other food crops. The Committee notes that the parity between rice and wheat has changed significantly and dramatically over the last ten years or so in favour of wheat, thus turning the barter terms of trade against the growers of paddy, and recommends that support prices of different crops should be fixed with an eye to parities consistent with the need for long term development of the cropping pattern.

12.4 Assessment of controls on foodgrains

12.4.1 The system of price control on foodgrains was originally devised in the consumer interest, so as to keep food prices down to reasonable levels. The substantial increase in the level of foodgrains output has caused the focus of attention to change. The system of compulsory procurement and of a levy on the farmer/rice mills has also, to the same extent, been replaced by public buying as part of price support operations. There has, inter alia, occurred a build-up of a buffer stock as a result of procurement at support prices.

12.4.2 A review of the functioning of the past system of price control cannot be separated from a review of the system of public distribution and rationing which has been in force. The public distribution system in foodgrains has been operated with a few breaks from 1943. It has been variously acclaimed and condemned; and of late it has come in for serious criticism.

12.4.3 Over different periods, the public distribution system has supplied varying quantities of foodgrains, and has had varying success in keeping down the prices of foodgrains. In one year, namely, 1965-66 the public distribution system supplied 14 million tonnes of foodgrains from fair price shops. The present level is around 10 million tonnes. Annex 12.2 gives the relevant figures.

12.4.4 It is claimed that the public distribution system today covers nearly 95 per cent of the population of the country through fair price shops. This is highly misleading. The total number of fair price shops in the whole country in 1978 was 239,204. Of these, 53,536 were in urban areas and 185,668 in rural areas. The total population thus covered is claimed to be 615 million - 151 million in urban areas and 464 million in rural areas. Annex 12.3 gives details of fair price shops by each State and Union Territory. The mere existence of a fair price shop in a large, thickly populated area does not mean that all people in that area can benefit from the fair price shop in question. The population shown as covered by fair price shops includes "persons who are eligible to draw foodgrains from the public distribution system". The actual offtake from the fair price shops, however, gives a more correct idea of the working of this system as also of the beneficiaries of the system. Annex 12.4 gives the information on the total offtake of wheat, rice and coarse grains, and their distribution in urban and rural areas[2]/ during 1977.

12.4.5 The offtake of foodgrains in urban areas was 6.5 million tonnes whereas in rural areas it was less than half, namely 3.1 million tonnes in 1977, for a total of 9.6 million tonnes distributed through fair price shops for which break-up of urban and rural consumption is available. The offtake of wheat was 6.2 million tonnes followed by rice at 4.6 million tonnes. Coarse grains accounted for less than 0.6 million tonnes. The system of public distribution has been widespread only in four States, viz. Kerala, West Bengal, Maharashtra and Jammu & Kashmir. West Bengal and Maharashtra recorded the largest offtake of wheat, at 1.2 million tonnes and 0.8 million tonnes respectively, while the highest offtake of rice was in Kerala at 1.4 million tonnes followed by West Bengal at 0.8 million tonnes.

12.4.6 There has been no nationwide survey of the working and effectiveness of the distribution system from fair price shops, though there are some small and limited surveys conducted by diverse agencies and organisations. Nonetheless, it is known that the system of food rationing, where it has been in force, has been plagued with the existence of "ghost" ration cards. The quantum of ration given to ration card holders has also varied widely from State to State, and this has forced people to depend also for part of the supply on market purchases. This may be understandable for surplus States, but would doubtless have impinged on consumers in heavily deficit States (like Kerala) where total rationing has been prevalent until recently, and the areas of Calcutta and Durgapur - Asansol industrial belt, where formal rationing is still prevalent.

12.4.7 Serious questions have been raised by many as to the beneficiaries of subsidised grains available from fair price shops. It is well known that some of the poorest sections of the population, as for example the daily wage workers, the migrant construction workers and the homeless have been left out of the pale of the public distribution system even in urban areas. Apart from the fact that ration cards

---

2/ Care has to be exercised in using and interpreting the figures of beneficiaries of the public distribution system in urban and rural areas. For some of the problems in regard to the available data, see footnote in Annex 12.4.

are only issued against municipal house numbers, which leaves out migrant construction workers from the ambit of the rationing system, the daily wage workers cannot afford to draw weekly or fortnightly rations, which is usually the minimum period for which rations are allowed to be drawn in most areas. There have also been complaints of long delays and red-tape in local civil supplies offices in the issue of ration cards, and the system appears to be too complicated for the really indigent, who are not able to take advantage of the public distribution system.

12.4.8 Nonetheless, from the evidence tendered before the Committee, it would appear that by and large; the existence of the public distribution system has been an important safeguard in keeping down prices of foodgrains to reasonable levels for the bulk of the urban population. The Committee has found that in the past, the entire population of deficit areas like Kerala, the urban population of West Bengal and the population in the bigger towns of Maharashtra, has benefited from supplies made from fair price shops, as also the population in most other industrial cities and towns. However, the Committee has also found that even in Kerala where most cultivators grow cash crops and where, therefore, there is a large effective demand for foodgrains, the public distribution system has started running rather thin after the recent lifting of control over inter-State movement of foodgrains. Annex 12.5 gives the statistics of actual distribution of rice and wheat from the public distribution system in Kerala month by month, over the past three years. The steady decline in the offtake from the public distribution system, after the lifting of movement control, and particularly after the decontrol of sugar in August, 1978 is a pointer to the difficulties of operating the public distribution system in a situation of adequacy of supplies.

12.4.9 In the evidence tendered before the Committee nonetheless, all State Governments have supported the public distribution system as being essential. In fact, they have suggested a further extension and strengthening of the public distribution system so as to cover far-flung areas and the poorer segments of population not yet covered by the public distribution system. The presence of the public distribution system has also been stated to be essential in order to have a moderating influence on private distribution. Some State Governments have emphasised the special advantage of public distribution system as an instrument for subsidising the consumption of the weaker sections of the population.

12.4.10 In Punjab, for instance, it has been pointed out that the State Government has successfully adopted its own scheme of opening retail outlets either run by the State or by co-operative societies in villages and in localities where urban workers live, for the supply of wheat "atta", pulses and edible oils or vanaspati at subsidised prices significantly below market rates. It has been claimed that the system has worked well because these retail outlets have been opened in localities which are in the heart of industrial workers' colonies or in areas occupied by the weaker sections of the rural population. It has also been stated that in Punjab, the relatively better off people buy up their requirements of major cereals for the whole year immediately after the harvest, and that in any case there is no purchase of "atta" except by the industrial workers or landless labourers.

12.4.11 The Committee feels that in India, the public distribution system cannot be dispensed with, even when there is no "shortage" of the commodities normally distributed through the system. The Committee also feels that the defects of the present system have to be overcome. One defect at present is the high cost of the

public distribution system. The Committee understands that an internal committee of the Government of India has found several possibilities of reducing the losses incurred on public distribution and has made certain recommendations thereon. The Committee would suggest continuing attention and search for such possibilities. But more importantly, the Committee would suggest the harnessing of private distribution agencies for public distribution - with proper supervision - relying on a basic adequancy of supply to prevent profiteering and the emergence of a black market. In fact, there should be a multipronged approach, with reliance on co-operatives, on employer operated canteens and stores, and on private shops operating under a code of conduct with suitable monitoring of their operations. This point is discussed in greater detail in Chapter 28 on Distribution Control and Buffer Stocks, since foodgrains constitute only one of several, though still the most important, of essential consumer goods.

12.4.12 There are several minor issues in connection with the public distribution system which the Committee would wish to briefly touch upon before discussing a major policy matter. It has been represented to the Committee that, first, even the fair price shops have to take out a number of different licences for different products, and maintain a large number of registers, as well as satisfy a large number of inspectors of different departments. This matter has already been touched upon in Chapter 7 on Essential Commodities. The Committee would only wish to recommend here that "technical violations" should not be made the reason for harassment, as alleged by many owners/managers of (privately owned) fair price shops. The punishment for offences like adulteration should be deterrent. The punishment for black marketing should similarly be exemplary. But the present procedure and system of harassment - leading to graft - should be ended. This can be done only by a drastic simplification of the rules of the game, by encouraging the consumer movement and by constituting Consumer Councils and Committees for overseeing the functioning of the system.

12.4.13 But the success of the public distribution system would depend, in the last analysis, on a combination of several factors, such as -

(a) the adequacy of supply; and

(b) the adequacy of storage facilities widely distributed throughout the country, so that there are no pockets where any unscrupulous trader may indulge in profiteering to take advantage of temporary shortages.

12.4.14 A number of steps are therefore necessary to solve the problem of food management. Correct pricing of agricultural products at the farm level buttressed by the supply of all necessary inputs is the first ingredient of such a policy. Admittedly, the breakthrough in foodgrains production in the last decade has been made possible by the input of research and the application of high-yielding varieties of hybrid seeds. But apart from the application of inputs like fertilisers and water and hybrid, high yielding varieties of seed, the Committee feels the maintenance of proper price parities to be essential in order to ensure a well-regulated supply of all essential agricultural products.

12.4.15 In regard to the system of public distribution, the Committee would recommend increasing decentralisation of several of the operations now undertaken at the Central level, particularly in the matter of procurement of foodgrains. With the

focus on price support policies, the Central effort should be primarily to coordinate and to monitor the functioning of the system at local levels, and to buttress it only where the State level effort may not be adequate. It has been suggested to the Committee that procurement by State Government authorities, on behalf of the Food Corporation of India (FCI), could make the procurement operation cheaper. The Committee would recommend the above claim to be tested, and if proved, to be followed up by designating the concerned State Government authorities as agents of the FCI for purposes of procurement. As long as the procurement price is reasonable and there is an adequacy of supply, there is no danger of a State level procurement system failing to deliver the supplies necessary to maintain an adequate buffer stock. Rather than maintain an elaborate procurement agency, the Central authorities could maintain grain silos and storage godowns spread throughout the country. The focus of attention therefore has to be on the determination of realistic support prices.

12. 4. 16 There is also need to build adequate storage facilities, not only in the surplus areas but also in far-flung areas, so that the maintenance of stocks can be decentralised, and the pressure on transportation can be eased. The attention of the Committee has been drawn to two problems in this connection. First, during harvest time, foodgrains have to lie out in open for considerable periods owing to lack of transportation facilities, and the inadequacy of storage facilities in the surplus areas. Indeed, there is in any case overall inadequacy of scientific storage capacity for foodgrains in the country, as Annex 12. 6 would bring out. The result is a loss of grain through damage before and during storage. Secondly, the Committee notes that some parts of the country are completely cut off for several months in the year, either because of floods as in the north-eastern region, or because of snow and other difficulties of communication in the hilly areas. The construction of adequate storage facilities in these difficult and isolated areas should be subsidised. There is also need for better storage in surplus areas because there is otherwise avoidable pressure on the transportation system during the busy season.

12. 4. 17 One aspect of the present control system is frequently overlooked, namely, that foodgrains are supplied from the public distribution system at uniform prices throughout the country - wherever the F. C. I. has outlets and distribution channels - though the quality of foodgrains, particularly in the case of rice, may vary from area to area depending on the quality of the local varieties grown. This has been a major gain of the public distribution system, and indeed, it is an extension of this to the remote and far-flung areas, so as to cover the entire population wishing to buy food, that the proposal to extend the public distribution system addresses itself. An incidental offshoot of the present policy is the availability of foodgrains at uniform prices throughout the year. Hence, comparisons frequently made in surplus areas between the issue price of foodgrains from fair price shops and in the open market in the immediate post-harvest period are misleading.

12. 5 <u>Other controls on foodgrains</u>

12. 5. 1 There are two other controls on foodgrains, valid as of today, which call for mention. The first concerns the control at present excercised on roller flour mills. The control, in turn, covers

(a) licensing control and
(b) control over the purchase of wheat.

The second control concerns rice hulling. There have been divergent views on licensing restrictions placed in some States, under the Rice Milling Industry (Regulation) Act of 1958, and the rules framed thereunder.

12.5.2 In view of the present adequacy in the supply of wheat, the Committee feels there is no case for the continuance of control over licensing of roller flour mills. Even though there is adequacy of capacity for the country as a whole, a somewhat better regional development of flour milling capacity would be in the consumer interest.

12.5.3 The control over purchase of wheat by roller flour mills involves certain other issues. The roller flour mills have suggested that they should be given the freedom to buy wheat in the open market. There is, however, a good reason why this control over roller flour mills should continue, and why they should not be alowed to enter the market but only accept wheat from the public distribution system.

12.5.4 The present arrangement regarding price support operations and buffer stocking requires the stocks of foodgrains with the FCI to be rolled over annually. For the buffer stock operations to function smoothly, it would be useful to have a captive demand for the older stocks of wheat, which can then be conveniently rolled over. This can be done painlessly by requiring roller flour mills not to make any market purchases but to depend upon the FCI for the wheat supplies required by them. There is no difference in the quality of flour when milled from freshly harvested wheat and a year old wheat, whereas for the ordinary consumer, there is certainly a marked preference for new wheat even at a premium. The first demand on the older stocks of wheat should therefore be from the roller flour mills, which would help the wheat stocks to be rolled over. This would also, inter alia, avoid large market purchases of wheat by roller flour mills which could disturb the market in the areas close to the mills. Conversely, it is but logical and reasonable that this wheat should be sold to roller flour mills at the same price as to others. The Committee would therefore recommend continuance of the present system in regard to the allotment of wheat to roller flour mills from the FCI stocks.

12.5.5 Insofar as rice hulling is concerned, the original objective of the Act and the Rules framed thereunder in April 1959 was the development of the hand pounding industry, making the setting up or functioning of the mill industry subject to licensing control. In view of the established superiority of modern rice milling techniques, both in terms of reduced breakage of rice and of overall increase in the outturn of rice, the Rules were amended in May 1970, to provide for the progressive replacement of the battery of hullers, combined huller-cum-sheller and sheller type rice mills by rubber rolls. The Rules have been amended from time to time, and the time permitted for the change over has been extended upto April 1980. The powers under the Act and the Rules have been delegated to the State Governments/Union Territories, and accordingly the Act is being administered by them.

12.5.6 According to the Department of Food, the objectives of the Act and the Rules framed thereunder have evolved over time, and have led to a readjustment of the application of various rules to regulate the rice milling industry which involves a reconciliation of multiple objectives, as follows:–

(a) To regulate the growth of the rice milling industry and to check the proliferation of rice mills in order to develop the hand pounding industry.

(b) To modernise the existing rice mills in order to reduce breakage of rice and to increase the output of rice from paddy.

(c) To bring rice mills progressively under the control of the community, especially because considerable difficulty was experienced with regard to control over small hullers scattered all over the country.

12.5.7 Some States like Tamil Nadu have enforced the Act strictly and have not permitted the installation of any further rice hulling machine, in the interest of employment for the hand pounding of rice. The critics of this policy have argued that procurement of rice would be easier from rice mills; and also, that rice bran which is used for making rice bran oil can be obtained only from modern rice hulling machines and not if paddy is hand pounded to obtain rice. According to oil experts and scientists rice bran becomes rancid if oil is not extracted within a few hours, and such rancid oil is not edible. This is contested by KVIC, which favours hand pounding of rice from the employment angle; the KVIC has also made the claim, which has been questioned by some experts, that rice milling destroys the bran. The Commitee recognises the partial validity in both arguments, namely, the employment angle in favour of hand pounding of rice, and large scale rice milling in the interest of easy procurement. The Committee feels that controlled growth of scientific rice milling is necessary for sustaining the public distribution system, particularly because of the easier facility as well as the lower cost of procurement of rice from rice mills.

12.6 Assessment of subsidies on foodgrains

12.6.1 The present system of food management involves a substantial subsidy. As indicated earlier, the control system has now given way to price support and buffer stock operations. The cost of the public distribution exceeds the sales realisation. The present level of food subsidy is Rs. 570 crores (1978-79 R. E.).

12.6.2 Direct food subsidies are of two types, which can be exemplified by recourse to 1977-78 figures - the latest year for which these data are available:

(a) for the maintenance of buffer stocks - the expenditure on this account in 1977-78 being Rs. 344 crores; and

(b) for maintaining the public distribution system - the expenditure on this account in 1977-78 being Rs. 219 crores.

12.6.3 Food subsidy has increased from only Rs. 40 crores in 1970-71, to the peak figure of Rs. 570 crores in 1978-79. The Budget Estimate for food subsidy during 1979-80 is Rs. 560 crores.

12.6.4 A subsidy (of Rs. 76 crores) for carrying buffer stocks of foodgrains was first given to the FCI in 1975-76. This increased nearly four-fold in 1976-77 and has further increased to four and a half times.

12.6.5 The subsidy on the public distribution of foodgrains rose from Rs. 10 crores in 1970-71 to Rs. 272 crores in 1974-75, It has since declined to Rs. 152 crores in 1978-79. There is a considerable subsidy on the distribution of wheat. A few years

back, the subsidy on imported wheat formed a significant part of food subsidy, but this is now tapering off. The difference between the total cost of wheat sales and the sale price of wheat has increased substantially. On rice procured domestically, there has been little or no subsidy.

12.6.6 The subsidy involved in the cost of carrying the buffer stocks, as well as of distribution of foodgrains through the public distribution system, would briefly depend on : the procurement/c.i.f. import price of foodgrains; the procurement, handling, storage and transportation costs; the transit and storage losses; the interest on capital involved (which would depend on the size of the buffer stock); and the overheads of the FCI.

12.6.7 It is technically possible - and therefore desirable - to segregate the cost of holding a buffer stock of foodgrains, and the cost of retail distribution, through the public distribution system. It may be noted that the procurement and distribution costs in respect of wheat and coarse grains constituted over 30 per cent of the overall 'cost' of these foodgrains in 1977-78, while for rice the expenditure was only 15 per cent. This was primarily because the method of procurement of rice was a 'levy' on the rice mills (thus minimising some of the FCI's procurement costs), as against the purchase of wheat from regulated markets.

12.6.8 The two elements of food subsidy : namely, the cost of carrying buffer stocks, and the subsidy on the public distribution system, have different objectives. The arguments for and against each of these two elements of food subsidy are briefly indicated below.

12.6.9 No one today questions either the need for food security or of stability of prices and supplies in lean years, or of the need to maintain farm incomes and farm prices in bumper years. This can be achieved only through the maintenance of a buffer stock of foodgrains. But then the maintenance of buffer stocks involves a cost. Indeed, the larger the buffer stock, the greater is likely to be the cost, both in terms of storage costs (and losses in storage) and of the interest on the capital involved in the maintenance of the buffer.

12.6.10 Insofar as the financing of buffer stocks is concerned, there are in theory two choices, but in practice, there is really no option. In fact, the cost of maintaining a buffer stock of foodgrains must necessarily be met out of the Government budget. Indeed, the cost of buffer stock operations cannot be passed on to the consumer, unless there is complete Government monopoly in the matter of procurement of the marketable surplus and of total control over the distribution of foodgrains. In a good year, with plentiful supplies, and in the absence of Government monopoly over the grain trade, the stocks with the Government cannot be sold if the cost of buffer stocking were to be added to the procurement price, since the market price, at least around harvest time would be close to the procurement price. At the same time, it would be essential to roll over the stock of foodgrains from year to year to avoid the grains getting spoilt in storage. Hence, the only practicable way would be to absorb the cost of buffer stock operations as part of Government expenditure for achieving "food security" in the economy.

12. 6. 11 The size of the buffer stock required in this connection is a matter for separate, detailed and technical study. There have been a number of studies in this direction. It is understood that Government policy in this regard is now veering round to maintaining a "buffer" of around 10 million tonnes of foodgrains, in addition to operational stocks required for the public distribution system.

12. 6. 12 The above rationale for subsidising the cost of buffer stock operations appears to be reasonable; but any subsidy required to operate the public distribution system needs to be separately justified. In theory, it is possible to maintain a buffer stock without operating a public distribution system. The justification of a subsidy for maintaining public distribution would therefore rest on a number of other factors. First, one has to see who the beneficiaries of the public distribution system are. Secondly, one has to examine why the cost of public distribution is high and needs a subsidy, especially if the storage costs (of maintainign a buffer) are segregated and subsidised. Thirdly, it is necessary to enquire as to whether the costs of public distribution cannot be brought down, since a burden on the exchequer is a cost to the entire community.

12. 6. 13 In this connection, the following break-up of costs given in the Annual Reports of the Food Corporation of India, for the years 1976-77 to 1978-79 are relevant:

Rate : Rs. /Quintal

	Cost of storage, movement and distribution on normal operations			Cost of carrying buffer stocks		
	1976-77	1977-78	1978-79	1976-77	1977-78	1978-79
1. Transit and storage losses	1. 36	1. 27	1. 35	1. 47	1. 75	2. 00
2. Freight	4. 51	4. 17	4. 50	3. 50	3. 30	3. 67
3. Handling godown expenses	1. 35	1. 31	1. 59	1. 05	1. 03	1. 30
4. Godown charges	0. 72	0. 89	0. 93	2. 50	3. 38	4. 12
5. Interest	4. 61	4. 65	4. 15	16. 02	17. 77	18. 48
6. Administrative overheads	2. 76	2. 54	3. 33	2. 15	2. 02	2. 72
	15. 31	14. 83	15. 85	26. 69	29. 25	32. 29

12. 6. 14 From available evidence it appears that the cost of retail public distribution is higher than the cost of retail private distribution. There are many reasons for this. Some defects of the public distribution can be remedied and the costs can be brought down. Nonetheless, the cost of private distribution may still be lower than the cost of public distribution, so long as adequate availability is assured. In view of the need, as seen earlier, to maintain a public distribution system, this matter needs close study.

12.6.15 The Committee feels that one way to reduce the subsidy on food distribution would be to operate the public distribution system through privately owned fair price shops. This is already being done to a considerable extent. Most of the fair price shops today are owned and operated by private parties, under licence from the civil supplies department, and their functioning is monitored. Provided that adequacy of supply can be maintained and the operation of fair price shops properly monitored, the use of such a network of existing private distributors can bring down the cost of distribution and eliminate or at least reduce the subsidy on food distribution, other than the cost of maintaining a buffer stock of foodgrains.

12.6.16 Distribution subsidies could be reduced, and eventually eliminated by (i) increasing the issue prices, (ii) reducing the import content of the distributed food (which is likely to come about anyway), (iii) increasing the weightage of other foodgrains in the total quantity distributed, and (iv) economising on the cost of procurement and distribution. Since 1974, the main reason for the decline in the amount of subsidy has been the reduction in the import content. Imports are an exogenous variable. During the five years of the Plan (1978-83), imports of foodgrains may not be large. This would help to keep down the total amount of subsidy.

12.6.17 While lowering of costs is important, another way to lower unit costs would be to increase the turnover so as to reduce the over-heads. This has implications beyond the distribution of foodgrains, and is discussed more fully in Chapter 28 on Distribution Control and Buffer Stocks.

12.6.18 The issue prices of wheat, rice and coarse grains have not been changed significantly since 1975. Procurement prices, on the other hand, have been frequently raised in the past four years. As a result, the subsidy per unit has increased since the other costs have also been rising. It is difficult to argue in favour of a subsidy on wheat when there is zero or negligible subsidy on rice. The imported wheat - which is now a small part of the stock - need not create the need for any subsidy for wheat to be sold from the Pool, if the issue prices are appropriately adjusted upwards.

12.6.19 To the extent that costs have gone up, if the sale price of foodgrains from the public distribution system is not to be increased, there would be a case for limiting subsidies only to a well identified target group around or below the poverty line. Subsidies can be justified if they are so designed as to meet the consumption requirements of identified target groups belonging to the weaker sections of the society. Some of the present loopholes in distribution can be minimised if the subsidies, instead of being given to certain sections of the population on a preferential basis, can be given on products primarily consumed by the poorer sections of the population. A subsidy on coarse varieties of rice or millets would be of this category, as constituting the principal food item of the poor. This way, even though a few affluent people having the same pattern of consumption would also get the benefit of the subsidy, by and large the subsidy would benefit the target group.

12.6.20 But to operate a subsidy scheme for millets and pulses, it would be desirable to ensure that the benefit of the subsidised grains reaches the vulnerable sections of the population. The system in Punjab described earlier could be tried where possible. One variant - the success of which would depend on the efficiency of the administration - would be to issue ration cards only to low income people. This point is further elaborated in Chapter 28 on Distribution control and Buffer Stocks.

12.6.21 The success of the policy would therefore rest on the extent to which the public distribution system can handle the supply of coarse grains, especially in the rural areas, and/or the operation of a subsidised distribution system, for identified target groups.

12.6.22 The Committee feels that there is justification for action on the lines suggested. Extension of the public distribution system to rural areas has always remained the crux of the problem. If banks and other public agencies can today identify the weaker sections of the population for purposes of concessional finance, there is no reason why the same population cannot be identified for the supply of concessional foodgrains. All heads of households having farms of a marginal size, as well as all agricultural labourer families could be identified, and issued with ration cards. Many States are already operating a modified rationing system in urban areas for people with incomes below a certain level. This is a task which the Committee would urge the Government to undertake systematically, so that subsidies are only paid for supporting the consumption of the poor.

12.6.23 In the evidence tendered before the Committee, almost all State Governments have suggested that a subsidy on inputs of agriculture is essential. It has been suggested that while a higher support price benefits only the large farmers with marketable surplus, the supply of inputs at a concessional price reaches all farmers. There has, however, been considerable doubt as to the present beneficiaries of concessional irrigation water and power supplied by the State. Nonetheless, it has been stated that this is a factor which can be corrected and controlled; and that the demonstration effect of fertiliser use has been established by the wide use made by small cultivators, of fertilisers.

12.6.24 The Committee generally agrees with this view. It feels that in any case, the determination of agricultural prices should be made in the light of input prices/subsidies on inputs. There is danger otherwise of one set of policies being neutralised by another set of policies impinging on the same subject. It also feels that the best way to subsidise inputs would be to make them available under special programmes like the SFDA, the MFAL, the DPAP and other schemes and programmes now incorporated under the Integrated Rural Development Scheme. For this purpose, the extent of subsidy available under these schemes should be substantially increased.

Chapter 13

EDIBLE OILS AND VANASPATI

13.1 Introduction

13.1.1 Next to foodgrains and cloth, the price of edible oils would most affect the consumption of the masses. Oilseeds are primarily an unirrigated crop subject to large fluctuations in output. Barely 0.9 million hectares out of 16 million hectares under oilseeds are irrigated. The long term trend of oilseeds output has been generally stagnant and per capita availability has declined.

13.1.2 Although plans for a substantial increase in oilseeds production have been made from time to time, and efforts have also been directed to subsidising minor oilseeds in order to expand the output of minor oils, by and large the oilseeds economy has been characterised by -

(i) a continued deficit in supply in relation to requirements; and

(ii) sharp fluctuations in output from year to year, owing to the vagaries of weather conditions, and the absence of a systematic policy calculated to remedy the situation.

13.1.3 Government policy in regard to edible oils has focussed on the following aspects, in response to the problems stemming from a basic imbalance between supply and demand, and acute shortages from time to time: -

(a) To announce support prices for the major oilseeds. Unfortunately, as would be seen later, the support prices have been too low to attract any increase in acreage.

(b) To apply selective credit control in regard to oils and oilseeds stocks, so as to reduce credit availability, curb speculative stock holding, and dampen the increase in prices in years of short supply.

(c) With the same objective in view, to ban forward trading in oilseeds, and to limit delivery under Non-Transferable Specific Delivery (NTSD) Contracts to within 11 days.

(d) In the same context, to control the stockholding of oils under the Pulses, Edible Oilseeds and Edible Oils (Storage Control) Order, issued in September 1977 (amended in October, and subsequently replaced by an Order of November 1977).

(e) To stabilise the price of vanaspati through the supply of cheap imported vegetable oils for hydrogenation, and to control the input-mix for vanaspati, thus, *inter alia*, reducing the demand for groundnut oil. Apart from the objective of ensuring the supply of vanaspati at reasonable prices, this measure has been aimed at reserving groundnut oil for direct consumption as an edible oil.

(f) To ban the refining of indigenous groundnut oil of expeller origin, with a view to ensuring the availability of cheap groundnut oil for the masses.

(g) To impose control on the price of certain edible oils from time to time.

(h) Finally, to suitably adjust export/import policies so as to increase the supply of edible oils.

13.1.4 It has been estimated that the basic imbalance between demand and supply is not only likely to continue but get accentuated in the coming years. On the basis of the expenditure elasticities for edible oils as per National Sample Survey estimates, the demand for edible oils and for vanaspati in 1982-83 has been estimated at 33½ lakh tonnes and 8 lakh tonnes respectively. In addition, the demand for oils for soap and for paints is estimated to be 4 lakh tonnes and 8 lakhs tonnes respectively. Against a total estimated demand for 53½ lakh tonnes, the Planning Commission target for production of all oilseeds by 1982-83 is only 125 lakh tonnes, which would give a total vegetable oils production of no more than 42 lakh tonnes. Even if the somewhat ambitious target of output is reached, there would still remain a gap of around 11½ lakh tonnes of vegetable oils by the end of the Sixth Plan. This poses a problem in regard to the long term management of the oilseeds/vegetable oils sector.

13.1.5 There are two other problems: first, in the short run, how to protect the consumption of the vulnerable sections of the population when there is a general shortage of supply; and secondly, how to even out the fluctuations in the prices of different groups of edible oils from year to year. Oilseeds being mainly a rainfed crop, fluctuations in output arising from the vagaries of weather conditions may be expected to continue.

13.1.6 In spite of oilseeds supply being fairly competitive at the farm level, the trade in oilseeds has strong speculative undertones. Difficulties of long distance movement of oils and oilseeds - which is a difficult and expensive business, because of long delays - are further enhanced because of the limited delivery period permitted under NTSD contracts. There is a special problem here in that an increase in the delivery period could encourage speculative transactions, while the strict limits now enforced limit competition and increase the oligopolistic character of the trade in oils and oilseeds.

13.2 <u>Controls on Vegetable Oils</u>

13.2.1 The present controls on vegetable oils and vanaspati are exercised through the following orders issued under the Essential Commodities Act:-

(a) The Vegetable Oil Products Control Order, 1947 (first issued under DIR in 1945, then brought under the Essential Supplies (Temporary Powers) Act of 1946, and later continued under the Essential Commodities Act of 1955).

(b) The Solvent Extracted Oil, De-oiled Meal and Edible Flour (Control) Order, 1967.

(c) The Vegetable Oil Product Producers (Regulation of Refined Oil Manufacture) Order, 1973 as amended in 1977.

(d) The Vegetable Oil Products (Standards of Quality) Order, 1975.

(e) The Pulses, Edible Oilseeds and Edible Oils (Storage Control) Order, 1977.

In addition, various State Governments have imposed controls of their own, which are modified from time to time.

13.2.2 There have been numerous addenda and amendments to the above. The main features of the existing controls are briefly indicated below.

The Vegetable Oil Products Control Order, 1947

13.2.3 The Vegetable Oil Products (VOP) Control Order is quite comprehensive. The objective of the Order is to regulate the production and distribution of vegetable oil products and to make the same available at reasonable prices. It was initially promulgated in 1945 under the DIR. The Order pertains to vanaspati, its scope being extended to cover quality control in 1972, and bakery shortening and margarine in 1975. The Order regulates -

(a) the manufacture, sale or stocking of all vegetable oil products;

(b) the usage of oils as input (maxima and minima for different oils being prescribed - currently, use of groundnut oil not being allowed);

(c) maximum sale prices, as may be laid down;

(d) quality of the product;

(e) movement of the product; and

(f) allocation of the product to different States.

The Order empowers the authorities to inspect/search any premises or carrier, and to seize any stocks of the product. It would be seen that the Order is quite extensive and gives wide powers to the executive authorities.

The Solvent Extracted Oil, De-oiled Meal and Edible Flour (Control) Order, 1967

13.2.4 This Order provides for the licensing of all dealers in any of the products listed in the Order, restictions on manufacture, sale and movement, quality control, monitoring and the submission of monthly returns. The major emphasis is on restrictions on sale and on stocking.

The Vegetable Oil Product Producers (Regulation of Refined Oil Manufacture) Order, 1973 as amended in 1977

13.2.5 This Order stipulates that no producer shall process any refined imported palm oil or any other refined vegetable oil in excess of the quantity specified. The

restriction does not extend to the processing of refined imported sunflower oil, imported soyabean oil, imported rapeseed oil, imported palmolein or cottonseed oil. The rationale of the Order is to check the adulteration of refined, bleached deodorised palm oil with vanaspati

The Vegetable Oil Products (Standards of Quality) Order, 1975

13.2.6 This purports to control only the quality of vanaspati, the Order having been issued under the VOP Control Order - in itself, an Order issued under the Essential Commodities Act.

The Pulses, Edible Oilseeds and Edible Oils (Storage Control) Order, 1977

13.2.7 This Order is intended to maintain supplies and to securing equitable distribution and availability, at fair prices, of pulses, edible oils and oilseeds. This Order envisages the licensing of all dealers, restrictions on stocks, submission of fortnightly returns. Under an amendment issued in October 1977, imported edible oils have been exempted from the prescribed stock limits.

13.2.8 Apart from the measures referred to earlier, the Government has also directed the State Trading Corporation (STC) to build up a buffer stock of imported edible oils so as to dampen price fluctuations. Very recently, Government has canalised the import of all vegetable oils (which was under the OGL until early December 1978), constituting another major administrative control over this sector.

13.3 Evaluation of controls adopted and stabilisation measures taken

13.3.1 Support price policy: The Agricultural Prices Commission (APC) has been fixing minimum support prices for the major oilseeds, so as to ensure adequacy of acreage and output of oilseeds. The support prices announced in the past have been of academic interest only, as market prices have been considerably higher. The following table giving the support price of groundnut and its market price is indicative of this feature:

Table I

Groundnut (bold Kernel)
(Rupees per quintal)

	Support Price	Average Market price in Bombay
1972-73	Should the price fall in the vicinity of Rs.100 per quintal, a public sector agency would resort to open market operations.	245.50
1973-74		369.83
1974-75		325.83
1975-76		255.58
1976-77	140.00	350.00
1977-78	160.00	340.00
1978-79	175.00	360.00

Source: Directorate of Vegetable Oils and Fats; Department of Civil Supplies & Cooperation.

13.3.2 As would be seen from the above figures, the support price has been considerably lower in fact ranging from around one-third to one-half of the market price, and it could hardly be expected to influence any decision in regard to sowing pattern. Indeed, what is relevant in this connection is relative price parity in relation to competing crops. There is evidence that in most parts of the country, and also specifically in Gujarat - the traditional source of the groundnut crop - the newly irrigated areas are being switched over from groundnut to sugarcane, and in U.P. and Bihar, from mustardseed to sugarcane. This would imply that the official price policy has not been successful in raising the attractiveness of the oilseeds crop which has been in short supply. The other important problem is the timing of the announcement of support prices. The decision to increase the support price of groundnut to Rs. 175 per quintal in September 1978 can hardly be expected to have any impact on groundnut cultivation - even if the price had been attractive, which it is not - because the sowing of groundnut is over well before September. One could say in retrospect that the support price policy measures have not been effective.

13.3.3 Selective credit control: A general discussion on the effectiveness of selective credit controls belongs elsewhere. Nonetheless, a brief mention may be made here of the application of such controls on the trade in vegetable oils, because these controls, applied by the Reserve Bank of India in the past, have been most stringent in respect of oilseeds, edible oils and vanaspati. It has been represented by the trade to the Committee that the extant controls have diverted stocks to speculative traders, who finance their transactions by black money. On the other hand, genuine traders, who are easier to regulate and check, are deprived of banking funds with which to hold stocks.

13.3.4 In theory, the above argument has some force. But in the Indian context, in a situation of chronic shortage, the Committee feels that this argument has little validity. In addition, to the extent that some of the traders deprived of banking funds are the self-same persons who may be currently operating in the market with non-banking funds, the above argument would not clearly apply. This issue has been discussed in further detail in Chapter 26 on Credit Control.

13.3.5 Ban on forward trading and limitation of delivery period in respect of Non-Transferable Specific Delivery (NTSD) contracts:

The trade has represented that the time limit of delivery fixed for NTSD contracts is unrealistic because of the special problems of transportation in a large country like India. The Forward Markets Commission's view is that extension of the time period could be misused for entering into speculative transactions.

13.3.6 In theory, futures trading - under fully competitive conditions - is likely to increase competition, smoothen supply and improve production, through hedge contracts. However, with market imperfections such as exist in India, and with severe constraints on supply, forward trading could intensify speculative activity which is already present. Nonetheless, it is doubtful whether the time limit of 11 days for delivery under NTSD contracts is realistic.

13.3.7 Indeed, it is doubtful whether limiting the period of transactions to eleven days has significantly reduced the fluctuations in prices. Considering the delays imposed

by the transportation system and the financial institutions, the representation of the producers to extend the delivery period seems reasonable. The time limit for NTSD contracts could, therefore, be fixed, not uniformly but depending on the logistics of transportation time, for which criteria could be laid down for delivery contracts for certain distant parts of the country. This period need not be uniform for all contracts, and the maximum period permitted being, in no case more than four weeks. The criteria, as well as the maximum period should be laid down after careful examination.

13.3.8 Ban on refining of indigenous groundnut oil of expeller origin:

The rationale of the Refined Groundnut Oil (Regulation of Refining and Price) Control Order, which has very recently been rescinded, had earlier been explained by the authorities as follows:-

(a) to conserve refining capacity (approximately 7 lakh tonnes) for imported oils of solvent extraction origin, which have to be necessarily refined before such oil is fit for human consumption;

(b) to keep down the price of goundnut oil, since refining costs would add something like Rs.1000 per tonne to the price of the oil;

(c) to avoid the losses (in availability) arising from refining; and

(d) to conserve groundnut oil of expeller origin for direct consumption as an edible oil particularly by the poorer sections of the population in rural areas.

It may be added that the objectives of the Order, as issued,emphasise only the first of the reasons, though the other arguments were advanced by the concerned authorities during discussions, in justification of the Order.

13.3.9 As against the above, it had been argued by the large processors and oil refiners that the ban reduces the availability of cheaper blends of edible oils which could be marketed by refining the indigenous groundnut oil and blending it with cheaper imported oils which would increase the total supply of a cheap cooking medium.

13.3.10 As stated earlier, the Order has been rescinded very recently; and the subject would be of no interest except for the point raised in the previous paragraph. This latter issue would be discussed later.

13.3.11 Buffer stock operations: Buffer stock operations in the oilseeds/vegetable oils sector have not been tried seriously so far. For one thing, indigenous supplies have generally been short rather than plentiful. Also, storage poses numerous problems, and is best undertaken at the seed stage as an integral part of price support/price stabilisation policy. Refined oil can also be stored. However, the shelf life of both seed and oil is only of two years. Buffer stocking can therefore moderate only seasonal, not cyclical fluctuations in vegetable oils and a carefully planned policy of import has to take care of the cyclical fluctuations in availabilities.

13.3.12 Control over stockholding of oils/prices of edible oils:

The Pulses, Edible Oilseeds and Edible Oils (Storage Control) Order imposed in 1977 seeks to limit the stocks of edible oils. It has been stated by the trade that the limits set to the level of stocks are unrealistic especially in non-oilseeds growing States. In practice, the Order is not really effective in preventing unauthorised hoarding and speculation.

13.3.13 The control over prices of edible oils - announced from time to time-has not been a success; and the recent example of the announcement of a maximum price of Rs.10 per Kg. for mustard oil (in October 1977) had the immediate effect of driving underground all stocks of mustard oil. The 1977 experience highlights the futility of price controls without effective distribution control. Of late, an attempt has been made to import rapeseed oil, and in West Bengal, to distribute the imported oil through ration shops. Attempts have also been made to distribute groundnut oil through consumers co-operative societies in Gujarat, but investigations conducted in this area indicate that the co-operatives supply only a very small fraction of the requirements of the town of Ahmedabad only. According to studies conducted on behalf of the Committee, in the past, the distribution system has worked well essentially because of a plentiful supply of imported oils, and not because of any special features of the system of distribution organised.

13.4 Controls on the vanaspati industry

13.4.1 There are today 85 vanaspati manufacturing units with a stated installed capacity of 12.9 lakh tonnes per annum. The effective capacity, given the current input-mix for the industry, and allowing for capacity not in use and capacity utilised for the hydrogenation of non-edible oils for industrial purposes, is only 8.2 lakh tonnes. This difference arises mainly because some of the other oils like soyabean oil, palm oil, rapeseed oil and cottonseed oil now used compulsively by the vanaspati industry, have higher iodine content requiring greater hydrogenation time than groundnut oil, thus sharply reducing capacity.

13.4.2 The bulk of the capacity for vanaspati manufacture(nearly 75 per cent) is concentrated in six States: Maharashtra (21%), Uttar Pradesh (15%), West Bengal (10%), Punjab (10%), Rajasthan (9%), and Gujarat(8%). Licensing of new capacity has not been permitted for some time in the vanaspati industry, on the ground of excess capacity, the annual output having remained stationary at around 6 lakh tonnes over many years. There are 21 existing plants with an installed capacity below 25 tonnes per day which is generally recognised as below the minimum economic size for this industry. In view of this, the Committee feels that the expansion of such units may be allowed to an economic size.

13.4.3 The control over vanaspati is today exercised through the Vegetable Oil Products (VOP) Control Order. As seen earlier, the VOP Control Order is quite comprehensive.

13.4.4 The control on the vanaspati industry and its effects are examined below in the light of the following relevant questions:-

(a) What have been the effects of the existing controls on production/ resource allocation?

(b) What have been the income distribution effects of the controls ? Who have benefited ?

(c) Has the control mechanism introduced any avoidable distortions in the economy ?

(d) How effective has the control mechanism been, and what have been the costs ?

13.4.5 Control over input-mix: Government exercises complete control over the input-mix. Currently, manufacturers have to use 80 per cent vegetable oils imported by the STC, 15 per cent minor oils (including cottonseed oil), and 5 per cent sesamum oil. The industry has represented against the canalisation of import and against the compulsory use of 5 per cent sesamum oil which, it claims, is not available easily or cheaply throughout the country, or all round the year. The Committee is given to understand that this stipulation has been made to avoid the adulteration of 'ghee' by vanaspati, since even a small percentage of sesamum oil can help to detect the presence of vanaspati in 'ghee'. The Committee therefore feels that this stipulation should remain. The compulsory use of imported/minor oils is also justified - the former in the interest of keeping up the availability of groundnut oil as an edible oil for the masses, and the latter in the interest of development of minor oils. The control over the input-mix for the vanaspati industry therefore appears to be justified in principle. However, there are certain aspects of the working of these controls which would be reviewed later and should continue so that indigenous groundnut oil is available for direct consumption as an edible oil.

13.4.6 The STC price of imported oils for the vanaspati industry is determined on a quarterly basis (Table II below) and prices have not been changed in the past with fluctuations in international prices. Since January 1977, the price variation in regard to STC supplies has been insignificant despite wide fluctuations in both domestic and international oil prices.

Table II

Prices charged by the STC to the Vanaspati Industry

(Rs. per tonne)

Period	Percentage of imported oil in input, as laid down by Government	Soyabean oil	Palm oil	Rapeseed oil
1. January-March 1977	75	6000	5600	6400
2. April-June 1977	75	6000	5600	6300
3. July-October 1977	90	(i) 6500	6100	6300
		(ii) 8250*	7850*	8250*
4. November 1977 to July 1978	75	5950	5500	5950

* The higher price was charged for the additional supply (of 15 per cent). Comment on this would be made later.

13.4.7 The STC's import prices (f.o.b.) during 1977 have ranged as follows:—

Table III

STC's Import Prices

(US $ per tonne)

	Soyabean oil	Rapeseed oil
Minimum	498	511
Maximum	749	735
Difference	251	224
Difference in terms of rupee (assuming exchange rate of Rs. 8.5 per dollar)	Rs. 2134	Rs. 1904

13.4.8 The evenness of STC's supply price was the reflection of Government's concern with the stability of vanaspati prices. Indeed, this concern was reflected during July-October 1977, in a somewhat unusual pricing policy for the STC's supply of imported oils to the vanaspati industry, when cottonseed oil was not available in the indigenous market. At that time, Government instructed the STC to release an additional 15 per cent of the oil required by the industry in lieu of indigenous cottonseed oil - taking the total quantum of imported oil to 90 per cent of the input, with only 5 per cent of indigenous sesamum oil to be used. This additional quantum of imported oil was to be sold at the higher price of indigenous cottonseed oil, so as not to disturb price parities and the cost structure.

13.4.9 Two points of note are relevant in this connection. First, the policy succeeded in stabilising the price of vanaspati in the market to earlier levels. Secondly, the effect of the policy was limited to checking any increase in the price of vanaspati, and prices of indigenous oils in the domestic market could not be stabilised. During 1977, the prices of groundnut oil and mustard oil evinced sharp fluctuations. In the result, the controlled price of vanaspati was for long periods lower than the market price of the cheapest edible oil. Inevitably, a black market emerged, and the industry and trade reaped a bonanza by charging a premium on the sale of vanaspati. While limited supplies of vanaspati were available at controlled prices through the Superbazars and a few other official outlets, by and large, vanaspati was available to the consumer only at a substantial premium. Even the fortunate consumers of vanaspati-i.e. those who could get supplies at the controlled price - were mainly the urban middle class, and the large masses of population consuming edible oils were left to meet their requirements at higher prices.

13.4.10 Even as the STC sold imported rapeseed oil to the vanaspati manufacturers at Rs. 6300-6400 per tonne during most of 1977 (the price from November being even lower at Rs. 5950), the Government had fixed the retail price of refined (imported) rapeseed oil for ordinary consumers at Rs. 8.5 per Kg. Imported rapeseed oil was supplied through Fair Price Shops at this price until August 1977, when the retail price of rapeseed oil was reduced to Rs. 7.50 per Kg. The retail price of vanaspati was less than Rs. 8.50 per Kg. calculated on the basis of Rs. 140 per tin of 16.5 Kg. of vanaspati. Prior to August 1977, therefore, the STC pricing formula entailed a cross subsidy in favour of the consumer of vanaspati rather than in favour of

the masses of people consuming rapeseed oil directly, and a continued tilt in favour of vanaspati users as against users of edible oils. In practice, as noted earlier, vanaspati got sold in the market at higher than the controlled price, leading only to untaxed profits made by the industry and trade. It may be reiterated that during this period, prices of other edible oils had been higher than the official prices of vanaspati.

13.4.11 Capacity and production controls: The capacity of the vanaspati industry has been tightly regulated under both the VOP Control Order and the IDR Act, inspite of the effective capacity for hydrogenation having got reduced because of the compulsory use of oils other than groundnut oil.

13.4.12 The output of vanaspati has been stagnant during the present decade as the following figures would indicate:-

Table IV

(1971-72 = 100)

Index of Vanaspati Production	
1972-73	97.8
1973-74	75.7
1974-75	59.4
1975-76	84.2
1976-77	90.7
1977-78	97.8

The Industry explanation for the 1974-75 decline in output is the price freeze on vanaspati and later, to a variety of factors like non-availability of oils, power cuts, labour disputes, etc. However, vanaspati production appears to have been kept low during the marriage season in June and July, 1975 even when the supply position in regard to inputs was comfortable, and even as the prices of edible oils were showing a downward trend. In fact, as would be seen from the following figures, relatively, the decline in oil prices was much more steep than the decline in vanaspati prices:

Table V

Vanaspati Production and Prices: 1975

	Production (tonnes)	Index of Vanaspati Price (1970-71=100)	Index of Edible Oils Prices (1970-71=100)
January	39751	181.7	170.5
February	39439	185.0	163.8
March	39842	179.0	157.1
April	39220	183.6	161.8
May	39050	197.0	163.8
June	34864	188.6	156.9
July	28200	173.2	145.5
August	33994	172.3	148.5
September	33759	166.6	139.9
October	33725	157.2	133.7
November	41464	154.9	129.0
December	54770	141.3	118.3

13.4.13 It is noteworthy that in 1975, there was no VOP Control Order stipulating use of imported oils; and with free availability of indigenous groundnut oil, the price of which was declining, the capacity of the industry was closer to 12 lakh tonnes, or around a lakh tonnes per month. In this background, a total output of around $4\frac{1}{2}$ lakh tonnes in 1975 would be difficult to explain. This further highlights the importance of allowing expansion to the small, independent manufacturers of vanaspati. The existence of 85 production units, as indicated in para 13.4.1 would appear therefore to be misleading as to the structure of the industry. Three producers control some 25 per cent of the installed capacity, and a considerably higher percentage of the output. There is thus a case for selective relaxation of control over licensing of capacity in vanaspati industry, the relatively uneconomic units being permitted to expand to economic size.

13.4.14 Control over vanaspati prices: The vanaspati industry has functioned under a regime of price control off and on. The year 1975 saw decontrol of prices, but informal controls were imposed again in 1976. The informal control has continued, prices being periodically adjusted, the formula being based on —

(a) Price of imported oil supplied by the STC.

(b) Price of indigenous oils valued at the price of sesamum oil. This is stated by the concerned Ministry to provide an in-built cushion as sesamum oil prices are higher than other oil prices.

(c) Compensation for oil loss in the process of hydrogenation.

(d) Excise duty and inter-State sales tax (latter being allowed at 3 per cent uniformly, even though not applicable for sales within the State).

(e) Conversion costs (including transportation costs).

(f) Return on capital at 13.8 per cent as recommended by the Tarriff Commission.

13.4.15 The basic question that arises in this connection is the relevance of any control - except in the matter of input-mix - on the vanaspati industry, and the beneficiaries thereof. In fact, there would appear to be little justification for any control over vanaspati prices when there is no control over the prices of edible oils used in far greater proportion by the masses. Nor, it seems, has the control over prices of vanaspati been effective. As seen in para 13.4.12 earlier, the industry was able to cut back production during the period of peak demand in 1975, even though there was no scarcity of inputs. There has also been no streamlined distribution system, and there have been reports of sales at a premium, particularly when indigenous edible oil prices have been high.

13.5 Canalisation of import of edible oils through the STC

13.5.1 Edible oils were canalised for import from 1.4.1969 and remained so canalised until January 1977 when the policy was changed, and licences were issued selectively to the trade for import of edible oils. The vanaspati industry was, however, still required to obtain its supply of imported oil from the STC. Vegetable oils imports were put on the "free licensing list" in the import policy for 1977-78 and on the OGL during 1978-79. The stipulation concerning the vanaspati industry being required

to obtain imported oils from the STC continued. Since 2nd December 1978, the import of vegetable oils has again been canalised through the STC.

13.5.2 The vanaspati industry had earlier been representing that it should be granted freedom to import edible oils. There are certain factors which favour the canalisation of the import of edible oils, and certain other factors which disfavour such canalisation, the conflicting considerations being noted below:-

(a) The availability of edible oils at the international market is such that supply is controlled by a few countries or groups of exporters in a few countries. The most common oils suitable for import are palm oil from Malaysia, rapeseed oil from Canada, and sunflower oil from the USSR. The international market in vegetable oils is not fully competitive, and there are certain advantages in letting an organised agency of the Government negotiate long-term supply contracts, the bulk import programme being used as a negotiating lever for securing export opportunities for new products. However, while this has been one of the avowed objectives of the canalisation of imports, so far this policy does not appear to have been pursued effectively.

(b) There are certain other advantages in bulk imports, particularly from the point of view of economy in freight.

(c) As against the above, the intervention of any agency with a very large import demand is likely to raise international prices, and the compulsion to import in order to meet the requirements of third parties, the urgency of their requirements not being known to the importing agency, could reduce the bargaining capacity of the importing agency in the matter of terms. Indeed, past experience has shown that bulk import, while it has led to advantages in regard to the import price in certain instances, can also have the opposite effect of pushing up the import price.

(d) Where negotiations with countries are not involved, the purchase procedures of a Government purchase agency like the STC usually lead to an increase in the import price. In the past, when the STC has been in the market for oils, offers have been invited from registered suppliers on a global basis. The publicity involved, and the dilatoriness of the procedures, have not helped in regard to either quick or cheap purchases. The general disability of a Governmental trading body to cash in on the changing situation in the international market has tended to make purchases on Government account liable to be less efficient then purchases by the private sector. Nonetheless, there do exist possibilities of entering into long term supply contracts, where deliveries can be firmly committed, with price adjustments as per ruling international prices. coupled with export contracts negotiated with the imports being used as a bargaining lever.

(e) An additional argument in favour of canalisation is the bungling in the matter of import of edible oils in 1977 when the trade was freely permitted to import vegetables oils - an occurrence which is fresh in memory.

(f) A further factor which is of some importance in this context is that currently the STC's capacity for storage of oils is a little less than 3 lakh tonnes. As a result, the STC cannot afford to buy up and to stock vegetable oils when oils are cheap abroad. Nor can the STC really influence the domestic price by import and buffer stock operations of any serious magnitude, unless the storage capacity is significantly augmented. This disability can, however, be got over, by the construction of new storage capacity or commandeering such capacity available with private trade.

13.5.3 The canalisation of the import of edible oils would have justification if the importing agency can influence the domestic supply situation in a significant manner to ensure the stabilisation of prices of oils generally. There is a further reason justifying the canalisation of import, provided that policy on the lines recommended in the following section is pursued. According to a study conducted on behalf of the Committee, edible oil prices in the country generally have been stabilised in the last year mainly because of the free imports of edible oils which has made for an adequacy of supply of vegetable oils, the actual import of oils during the year 1978, being of the order of Rs. 800 crores. With the canalisation of import, it is essential that the import programme be continued so as to meet the gap between demand and domestic availability.

13.6 General assessment and recommendations

13.6.1 It has already been seen that the diverse controls on oilseeds, oils and vanaspati as at present exercised have not really been effective except to the extent that the control over the input-mix for production of vanaspati has had a beneficial effect both as to the promotion of minor oilseeds and oils and for making indigenous edible oils available for direct consumption as a cooking medium.

13.6.2 On all account, the indigenous output of edible oils in the near future is not likely to be able to meet genuine requirements, and it may be necessary to import substantial quantities of edible oils for some years on a sustained basis. This should be recognised in the interest of the poorer sections of the population, and the total availability of edible oils needs to be significantly augmented.

13.6.3 Though there have in the past been strong local preferences for different oils as the cooking medium, consumers have been known to take to cheaper cooking media. The recent switchover to rapeseed oil in many areas is testimony to this.

13.6.4 In the above context, the policy regarding controls on the vegetable oils/ vanaspati sector should be reconsidered as follows:-

(i) Cheaper edible oils should continue to be imported and made available directly for consumption by the masses of people through fair price shops and other retail outlets. The price could be kept at a level which would not discourage the cultivation of oilseeds within the country, with due regard to the consumer preference for groundnut oil and the significantly lower import price of substitute oils like palm oil and rapeseed oil.

(ii) In order to avoid sharp fluctuations in edible oil availability and prices, a buffer stock of edible oilseeds/oils should be built up for at least two months' requirements, through additional imports, if necessary. For this purpose, there is need for a more realistic support price to be announced for edible oilseeds, and also scientific storage for oilseeds as well as refined oil, particularly in deficit areas, with a view to reducing seasonal fluctuations in prices. This may call for a somewhat larger import than required for current consumption, in the context of an overall deficit in domestic availability in relation to demand. Canalisation policy should be used for the required import and for buffer stocking, and not for reduction in the quantum of vegetable oil import which is an essential item of mass consumption. Further, adequate storage capacity should be built in different parts of the country particularly in deficit areas, to prevent sharp increases in price particularly during off-season.

(iii) The STC should be asked, as the canalising agency for edible oils import, to contract for substantial quantities of cheap edible oils import, for augmenting supplies of edible oils in the country. The advantage of canalisation of the import of edible oils in this connection could be to arrange for long term supply contracts with neighbouring countries producing palm oil, and other substitute oils. The canalisation policy can be used to prevent any adverse impact of oil imports on the development of the production of edible oilseeds within the country. This can also be done via import duties.

13.6.5 It remains to comment on the extant controls on the vegetable oils/vanaspati sector. The VOP Control Order appears to be necessary only insofar as control over the input-mix of the vanaspati industry is concerned. The other restrictions, some of them quite severe, have generally been ineffective. However, the storage control order, seeking to limit stocks, cannot be given up in a scarcity ridden sector. For the same reason, forward trading in vegetable oils and oilseeds cannot be permitted in the Indian background. The Refined Groundnut Oil (Regulation of Refining and Price) Control Order has now been rescinded, and the Solvent Extracted Oil, De-oiled Meal and Edible Flour (Control) Order also does not today appear to have any relevance. The modification required in the time limit to be allowed for delivery under NTSD contracts has already been commented on in para 13.3.7 earlier. The ban on the import of refined palm oil was intended to protect the vanaspati industry, but this would no longer be relevant in view of the canalisation of import of all vegetable oils.

13.6.6 There have been demands from time to time for the colouring of vanaspati to avoid adulteration with 'ghee'. This technique is, however, not likely to succeed because any harmless colouring matter can be 'decoloured' with equal facility. The stipulation that a minimum of 5 per cent of sesamum oil should be used for manufacture of vanaspati - opposed by vanaspati manufacturers - provides an effective answer to the problem because the presence of sesamum oil can help to detect adulteration of 'ghee'. This stipulation, coupled with deterrent punishment for adulteration, therefore, should be continued.

Chapter 14

SUGAR

14.1 Introduction

14.1.1 Sugar production commenced in India in 1903 with a factory each in Bihar and Uttar Pradesh. The sugar industry developed rapidly under protective import duties granted in 1932, under the Sugar Industry (Protection) Act. The tariff protection granted to the sugar industry (at varying rates) lasted until 1949-50. By 1950 there were 140 sugar factories of which there was only one co-operative sugar factory. By 1976-77, there were 270 sugar factories in operation of which as many as 116 were co-operative sugar factories.

14.1.2 The 1932 Act was intended to benefit both the sugar industry and the cane grower. In practice, the benefit was reaped wholly by the industry. Accordingly, with a view to ensuring a reasonable price to the farmer, the Central Sugarcane Act was passed in 1934. The Act empowered the State Governments to fix minimum prices for sugarcane to be paid by the sugar factories. Provisions of this Act were applied in UP and Bihar from the crop season 1934-35. Subsequently, the then Provincial Governments of UP and Bihar enacted their own legislation (Sugar Factories Control Acts) to fix sugarcane prices and to regulate the system of purchase of cane by the factories. It would be seen that State regulation of the sugar industry dates back to pre-Second World War days.

14.1.3 Statutory control over the price and distribution of sugar was first imposed by the Government in April 1942 under the Sugar Control Order, issued under the Defence of India Rules. However, even prior to the war, there had been informal price regulation by the industry, with the tacit approval and later active help of Government. The year 1936-37 registered a record production of sugar as a result of which stocks accumulated and prices declined. The Indian Sugar Syndicate was formed at this stage as a voluntary organisation, with the objective of regulating the sales of sugar by member factories. The Syndicate fixed the minimum selling prices for sugar and issued quotas for sales by member factories from time to time. In 1937-38, several factories broke away from the Syndicate. The latter approached the Governments of UP and Bihar for help, and the two Provincial Governments issued Rules under the Sugar Factories Control Acts to stipulate that licences for crushing of cane should be issued only to those factories which were members of the Syndicate. The Syndicate thereafter became the sole selling organisation for the sugar factories in UP and Bihar. Although the Syndicate continued to exist thereafter, it had few functions between 1942 and 1947. Government recognition of the Syndicate was finally withdrawn in 1950 following the recommendations of the Tariff Board.

14.1.4 The Sugar Control Order of 1942 was later re-issued as the Sugar and Sugar Products Control Order. The Order has seen numerous changes, and the sugar industry has passed through various phases of control, decontrol and partial control since.

14.1.5 The post-war history of control over sugar is briefly tabulated below, together with salient points in regard to the causes, features of control and results of each. It may be noted that the sugar year runs from October to September.

(i)	December 1947 :	Sugar decontrolled.
(ii)	September 1949:	Control re-imposed to curb irregularities by members of Indian Sugar Syndicate.
(iii)	October 1950:	Sugar and Gur Control Order, to prescribe minimum cane price on all-India basis. Reason: different States had started fixing different minimum prices of cane.

Minimum all-India cane price for 1950-51 fixed for first time under above Order.

(iv)	December 1950:	Control over sugar factories partially relaxed. Factories permitted to directly sell sugar output in excess of 90 per cent of 1949-50 output.

This may be deemed to be first attempt at dual price policy for sugar.

(v)	1952:	Sugar and Sugar Products Control Order. All sugar sales controlled. Allocations of monthly quotas to be delivered by mills to States to be fixed by Sugar Controller.
(vi)	1952-53 sugar season:	In view of improved supply situation, control relaxed. Small part of output reserved for controlled distribution.
(vii)	April 1954:	Government assumed powers to requisition 25 per cent of sugar output.

No ex-factory price of sugar fixed for 1954-55 to 1956-57 sugar seasons.

(viii)	From early 1958:	Sugar prices started rising following short crop in 1957-58 season.
(ix)	February 1958:	Control over sugar re-imposed. Tariff Commission asked to recommend fair ex-factory price of sugar.
(x)	June 1958:	Sugar Export Promotion Ordinance. Small export quota of 2 lakh tonnes of sugar announced.
(xi)	July 1958:	Government decided to requistion and distribute sugar at fixed prices.

Also, licensing of sugar dealers by State Governments; assignment of specific quotas of sugar to individual States; ban on inter-State movement of sugar except as directed by Central Government.

(xii)	1959:	Tariff Commission recommended four regions (Northern; M.P. and Rajasthan; Bombay;

Southern), and four different fair prices based on duration of crushing and recovery of sugar.

(xiii)	July 1959:	Entire production of sugar taken over for direct allocation by Central Government.
(xiv)	1959-60 and 1960-61:	Package of incentives, to increase output of sugar, like concession in minimum price of cane for UP and Bihar factories; rebate in excise duty on sugar produced in excess of previous two seasons average.
(xv)	1960-61:	Sugar production reached peak level of more than 30 lakh tonnes. Carry over stock at end of season rises to 15 lakh tonnes.
(xvi)	September 1961:	Sugar (Regulation of Production) Ordinance. Cut of 10 per cent imposed in output of sugar in 1961-62 season, as compared to 1960-61 season.
(xvii)	1961-62 and 1962-63:	Substantial fall in output of sugar.
(xviii)	From early 1963:	Prices of sugar recorded abnormal increase.
(xix)	April 1963:	Sugar (Control) Order. Control over prices and distribution of sugar re-imposed.

State Governments advised to fix wholesale and retail prices of sugar. Distribution within States left to State Governments.

Rebate granted in excise duty on additional production of sugar.

(xx)	April - October 1963:	Sugar prices revised frequently - as many as three times.

Number of sugar zones increased to as many as 19 in November 1963.

(xxi)	August 1965:	Number of sugar zones (for purposes of pricing of sugar) increased to 22. These separate zones remained for pricing purposes until decontrol of sugar in August 1978.
(xxii)	1966-67:	Worst year for sugar, as a result of drought. Output of cane declined by about 25 per cent. Output of sugar declined by about 40 per cent.
(xxiii)	August 1967:	Partial decontrol announced in order to enable factories to buy cane in competition with gur and khandsari. For 1967-68 sugar season, factories required to supply only 60 per cent of output to Government, at "levy" prices. Balance of sugar allowed to be sold at market price. Monthly releases of sugar, however, kept under control in order to ensure regular supply throughout year.

Apart from a short break in 1971, above arrangement continued until August 1978. Share of levy varied between 60 and 70 per cent of total output. The policy led to a steady growth of sugar output.

(xxiv) From early seventies: Some State Governments started announcing higher cane prices than recommended by the Centre on the advice of the Agricultural Prices Commission, adjusted by the Bhargava formula of profit sharing.

As a result, cane area in northern States increased substantially, and sugar output increased phenomenally, over successive years since 1977-78.

(xxv) August 1978: Complete decontrol of sugar.

14.1.6 Two other notable developments may be briefly mentioned. First, since the Second Plan commencing from April 1956, the licensing of new sugar units has been strictly planned in relation to the sugarcane area, with increasing emphasis on the licensing of co-operative sugar factories which have come up mainly in Maharashtra and the Southern States. Secondly, quite apart from periodic enquiries in regard to costs of production by the Tariff Commission and lately by the BICP, the sugar industry has been the subject of enquiries by a number of committees/commissions. Starting with the Justice Gangasaran Committee of 1949, the Committee on the Rehabilitation and Modernisation of Sugar Factories in 1963 headed by Shri S.N. Gundu Rao, the Sugar Industry Enquiry Commission in 1964 headed by Dr. S.R. Sen, and finally, the Sugar Industry Inquiry Commission in 1973 headed by Shri V. Bhargava, there has been a plethora of special investigations and enquiries into the problems of the sugar industry. Some of these would get reflected in the discussion which follows.

14.1.7 The history of controls over the sugar industry has been given in some detail because:

(a) It exemplifies the swings in policy between control, decontrol and partial control on a major industry, which also affects the agrarian economy vitally.

(b) It also typifies an absence of any clearly thought-out policy in regard to the problem of price parities, and of the optimal utilisation of the limited land resources in the country.

(c) Finally, the system evolved has led to a phenomenal growth of sugar production - to a point of excess supply in the last two years - which has created its own problems.

14.2 Past experience of decontrol/partial decontrol

14.2.1 The policy of decontrol of sugar has in the past been adopted during three different spells -

(a) 1952-53 to 1957-58

(b) 1961-62 and 1962-63 (upto mid-April 1963)

(c) 1970-71 and 1971-72 (May 25, 1971 to December 31, 1971). From January, 1972, voluntary price regulation came into effect.

A statement showing the system, the area, and output of sugar-cane and sugar, the consumption of sugar, and the price of sugar and of gur from 1960-61 to 1976-77 is given in Annex 14.1.

14.2.2 It may be mentioned that during the above three brief experiments at decontrol - (a) the price of cane had not been decontrolled, and (b) control over monthly releases of sugar had not been given up. The decontrol, therefore, was partial; and the last experiment lasted only for seven months.

14.2.3 After every period of decontrol, there has been a decline in the area under sugarcane, and a much steeper decline in the production of sugar. The latest experience is indicated in Table I below:-

Table I

Impact of decontrol on area and output of cane and on production of sugar

	Area under sugar-cane (lakh hectares)	Production of sugar-cane (in terms of gur) (lakh tonnes)	Production of sugar (lakh tonnes)	Consumption of sugar (lakh tonnes)	Season end stocks (lakh tonnes)
1969-70	27.5	137.8	42.6	32.6	20.9
1970-71	26.2	129.8	37.4	40.3	14.1
1971-72	23.9	116.3	31.1	37.8	6.0

14.2.4 As against the above, under the partial control system adopted since August 1967, sugar production had increased from 22.48 lakh tonnes in 1967-68 to 42.62 lakh tonnes in 1969-70. The partial decontrol was announced too late to affect the area under cane in 1967-68. But the policy made it possible for factories to offer higher prices for cane during the 1967-68 season. Carry over stocks had also risen from 4.35 lakh tonnes in 1967-68 to nearly 21 lakh tonnes in 1969-70.

14.2.5 Since the price of cane (for sugar factories) had been maintained in all periods, the connection between control over sugar prices and growth of cane output needs to be explained. In the past, decontrol of the price of sugar has been accompanied by a fall in the price of sugar, and with a fall in the price of sugar there has also occurred a fall in the price of gur, which in any case consumes the bulk of sugar-cane output. With a lower realisation in the price of cane, there was a decline in the area (and output) of cane, and there has been, historically, a more than proportionate decline in sugar output, causing a pressure on sugar prices, which has brought back the control on the price (and distribution) of sugar. While, therefore, the minimum price of cane has given an incentive to the growing of more cane, as long as control has lasted, this has induced greater sugar production. However, this has also, periodically, led to overproduction of sugar in relation to offtake, and a build-up of sugar stocks. With comfortable stock position, there has been a clamour for decontrol.

14.2.6 In retrospect, if two lessons emerge from the past trends of sugar/sugar-cane production, it is that first, one has to endeavour to avoid a stop/go policy; and secondly, any long term policy has to be linked to a reasonable price of cane - which is neither too high nor too low in relation to the prices of competing crops - so that there is a steady growth of sugar-cane and sugar production.

14.2.7 The dual price policy - introduced in November 1967 - had three objectives-

(a) to provide an incentive to sugarcane growers to bring more area under sugar-cane;

(b) to give an incentive to the sugar industry to maximise sugar production; and

(c) to ensure availability of a substantial portion of the output for the consumer at a reasonable price.

14.2.8 While objectives (a) and (b) have in retrospect been more than fulfilled, and while the urban consumer has been provided with sugar at a reasonable price, this benefit (of low price of levy sugar) has not reached the masses of rural consumers.

14.2.9 The steep increase in the area and output of sugarcane in 1976-77 and 1977-78 (and also forecast for 1978-79) appears in retrospect to have been the result, not so much of the system - whatever the other implications of the present system - as of the unrealistically high price of cane enforced by the State Governments, which has led to a spurt in the area and output of cane.

14.3 Basic characteristics of the sugar economy

14.3.1 Before the present problems of the industry, the policy options open, and the implications of each policy option are discussed, a few basic facts pertaining to sugar-cane/sugar production, prices, stocks, etc. in 1976-77 and 1977-78 and the prospects for 1978-79 may be relevant. These are briefly indicated in Table II below:-

Table II

Basic facts pertaining to sugar economy

	Sugar Year (October-September) 1976-77	1977-78
1. Sugarcane area ('000 hectares)	2866	3220
2. Sugarcane production (m. tonnes)	153.0	181.6
3. Sugar production (lakh tonnes)	48.4	64.6
4. Sugarcane crushed by sugar mills (m. tonnes)	48.9	67.3

	Sugar Year (October-September) 1976-77	1977-78
5. Prices (wholesale - Rs./quintal) as in mid-February (1977-78)*		
(a) Sugar, free market, (D-30) at Delhi	450	355
(b) Khandsari, at Delhi (i) Desi	340	245
(ii) Sulphur	320	300
(c) Gur at Hapur, U.P.	90	85
6. Domestic Sugar consumption (lakh tonnes)	37.5	44.9
7. Sugar stocks (lakh tonnes)		
(a) Opening	8.5	16.2
(b) Closing	16.2	34.0
8. Cane price arrears as on December 31, 1977 (Rs.Crores)		14.43

14.3.2 The 1978-79 situation so far (mid-February, 1979) may be briefly summed up as follows:-

(a) The area under sugarcane is likely to be the same as in 1977-78, having been planted well before the decontrol of sugar in August 1978. The new season for planting is now on, and the area for the next year (i.e. 1979-80 sugar year) may well remain approximately the same because, although the factories are this year required to pay the prices for sugarcane as laid down by the Central Government (on the basis of the recommendations of the Agricultural Prices Commission), the State Governments of Uttar Pradesh, Bihar, Punjab and Haryana have announced that the cultivators supplying cane to factories would be given a subsidy from the State Government equal to the difference between the State advised price of cane last year and the Centrally announced price this year, as payable by the factories.

(b) The output of cane in 1978-79 is expected to be roughly the same (revised upward recently to 182 million tonnes from 172 million tonnes forecast earlier). Production of sugar during the current season, upto 15th February, 1979, is 30.2 lakh tonnes, a little more than 1 lakh tonnes higher than in the corresponding period of 1977-78. The output of sugar during 1978-79 may, therefore, be expected to be at least 65 lakh tonnes, if not marginally higher.

(c) Physical stocks with the mills on February 15, 1979 were 37 lakh tonnes as compared to 28 lakh tonnes a year ago.

---

* Prices in mid-February, 1979

(a) Sugar (D-30) Delhi:	220
(b) Khandsari, Delhi:	
Desi	187
Sulphur	200
(c) Gur	95

(d) After decontrol, the offtake of sugar during October 1978 to January 1979 of the current sugar year has been at a considerably higher level than last year. Internal consumption in these four months was 19.60 lakh tonnes, or at an annual rate of 59 lakh tonnes. If the export of sugar is only 7 lakh tonnes - as permitted under the quotas available against various agreements - the total offtake of sugar would be 66 lakh tonnes, or roughly at the same rate as the output of sugar.

(e) As against the above, the production of khandsari is reported to have declined steeply, from around 10 lakh tonnes in 1976-77 to nearly half. Gur prices are also ruling quite low, the wholesale price varying from as low as Rs. 82 per quintal to Rs. 170 per quintal. Retail prices range from Rs. 0.90 to Rs. 2.20 per Kg. in different parts of the country. The level of gur prices in different markets in mid-February, 1979 is indicated in Annex 14.2.

(f) As a number of factories found it difficult to restart operations during the current season, an Ordinance was issued in November, 1978 by the Central Government providing for the take-over of the management of units which do not restart cane crushing or which do not pay the arrears of cane dues. As of now, 10 sugar factories are under Central Government management under this Ordinance.

14.3.3 Some further facts about the sugarcane/sugar economy today and the problems thereof are summed up below:-

(a) U.P. alone accounts for some 53 per cent of the sugarcane area in the country, and 44 per cent of the cane output.

(b) Both the duration of the cane crop and the sugar yield of cane are, by and large, higher in the Southern States (Andhra Pradesh, Karnataka, and Tamil Nadu) and Maharashtra than in Bihar and Eastern U.P. where sugarcane cultivation and sugar factories were first started. The number of days per year that cane has been crushed over 1971-72 to 1976-77 has averaged 78 in Bihar and 127 in Uttar Pradesh as against 144 in Karnataka, 153 in Maharashtra and 164 in Tamil Nadu. Over the same period, the average sugar yield recovery has ranged from 8.17 per cent in South Bihar to 10.97 per cent in Maharashtra.

(c) The minimum prices for cane - as per the State advised prices for sugar factories - used to be considerably higher than the statutory prices notified by the Central Government. Even though the factories are now required to pay only the statutory prices, as indicated earlier, many States are subsidising the difference. The support required to meet even the operational cost of the 10 units - the management of which has been taken over - is reported to be Rs. 15 crores in 1979-80.

The following prices for 1977-78 may be seen:

Table III

Cane price : 1977-78

(Rs./Quintal)

		State advised cane price	Minimum cane price notified by Central Government on the basis of previous year's recovery.
1.	Western U.P.	13.50	8.50 - 11.00
2.	Central U.P.	13.50	8.50 - 11.40
3.	Eastern U.P.	12.50	8.70 - 10.30
4.	North Bihar	12.50	8.50 - 10.80
5.	South Bihar	12.50	8.50 - 9.10
6.	Punjab	13.50	8.60 - 10.20
7.	Madhya Pradesh	12.50	8.50 - 10.20
8.	Andhra Pradesh	9.50 to 12.00	8.50 - 10.80
9.	Tamil Nadu	9.30 to 12.70	8.50 - 10.00
10.	Pondicherry	9.30	8.70

In so far as Maharashtra is concerned, there has been no "State advised" price, but the co-operative factories in the past used to give a substantial bonus over the cane price as notified by the Central Government, on the basis of the realisation from sugar, the profits from which have by and large been wholly distributed to the cane growers. The position after decontrol would not be known for sometime yet.

(d) Based on the price realisation as of mid -March 1979 at around Rs. 225 per quintal, and even lower elsewhere - excluding the excise duty of around Rs. 32 per quintal which has recently been raised to around Rs. 36 per quintal - a large number of sugar factories are in the red. In other words, this situation is not really sustainable in the long run.

(e) In spite of the generally much higher price of cane obtained by the farmers from sales to the sugar factories, the average realisation of the farmer - owing to the very low price realised from khandsari and gur- has been quite low; considerably lower than the minimum statutory price notified by the Central Government. In fact, other than the large farmers owning sugar co-operatives, all other cane growers have realised a much lower price for cane than is likely to be assumed on the basis of the factory price of cane.

(f) While the sugar industry absorbed 18 million tonnes of additional cane in 1977-78, the offtake of the decentralised sector was lower. Khandsari production is estimated to have declined from 1 million tonnes in 1976-77 to around 6-7 lakh tonnes in 1977-78, and is expected to have declined even further this year. The sugar extraction from cane in khandsari production being lower than in sugar factories (at around 6 to 6½ per

cent), the offtake of cane by the khandsari sugar industry could be as much as 7 million tonnes less during the current year. There are indications that there has also been a fall in the demand for and production of gur, though no figures are available in this regard. Last year, some part of the cane has reportedly even rotted in the fields in some parts of the country, and fed to cattle, or burnt. According to reports, the price realised for cane supplied by cane growers to gur and khandsari producers has ranged between Rs. 3 to Rs. 7 per quintal. Assuming an average price of Rs. 13 per quintal for the cane sold to factories and of Rs. 5 per quintal for the balance, the average realisation would work out at around Rs. 8.00 per quintal. Even this has not been fully disbursed to the cane growers, there being substantial arrears in payment for cane by factories.

(g) Apart from the factories the management of which has had to be taken over by the Central Government - under the Sugar Undertakings (Take Over of Management) Ordinance of November, 1978 - the Bihar Government has ordered the take-over of 16 factories, the latter having gone to court. The matter is sub judice, and Uttar Pradesh also faces a similar situation.

(h) The increased rate of consumption of sugar at around 5 lakh tonnes per month is based on a retail price of sugar at around Rs. 2.25 per Kg. It is not certain that this rate of consumption would be sustained if the sugar price increases to a level at which most of the sugar factories are no longer in the red.* It may be noted, however, that much of the increased consumption of sugar is in the rural areas where it has displaced both khandsari and gur. Khandsari is no longer the preferred sweetening agent for sweet makers and confectioners.

(i) The sugar stock with the factories at the beginning of the current season was 33 lakh tonnes. Valued at, say, Rs. 200 per quintal, the total inventory of sugar at the commencement of the sugar season in October 1978 - would have been Rs. 660 crores. Only the interest burden of carrying this quantum of sugar, at 14 per cent, would be close to Rs.92 crores (i.e. without any other cost added, like godown charges, storage loss). On a sale of 60 lakh tonnes, this means an additional cost of 15 paise per Kg., which adds to the loss of the industry.

(j) One of the consequences of the system adopted for dual pricing between 1967 and 1978 has been the wide gulf between the cost of production of mills in different regions. As noted earlier, for purposes of pricing of "levy" sugar, the country had been divided into as many as 22 zones, and over time the spread between the maximum and minimum "levy" prices has

* The latest position is that the sugar industry has formed a cartel in the matter of sugar releases, and the retail price of sugar has been forced up to Rs. 3.00 per Kg. The matter has been referred to the MRTP Commission, and the final outcome is not clear.

grown. The spread between inter-zonal prices over the years may be seen from the table below:-

Table -IV

Zonal ex-factory levy sugar prices in the last decade

S. No.	Price fixation in	Minimum price	Maximum price	Difference	(%) (5 over 3)
		(Rupees per quintal)			
1.	2.	3.	4.	5.	6.
1.	1969-70	117.60	157.88	40.28	34
2.	June, 1972	121.97	182.92	60.95	50
3.	November, 1972	143.94	193.16	49.22	34
4.	December, 1973	149.55	194.03	44.48	30
5.	July, 1975	117.48	441.31	323.83	277
6.	February, 1976	125.86	286.62	160.76	130
7.	August, 1976	141.96	274.60	132.64	94
8.	March, 1978	159.99	292.63	132.64	83

The introduction of cut-off points at the lowest level both relating to duration (75 days) and recovery (8.5%) have reduced inter-zonal variations recently though they are still high.

(k) The results of the pricing system adopted since August 1967 have been, first, to generally dislocate the optimal pattern of cane production, and also, as a result, the location of sugar factories; secondly, this has put a premium on inefficiency - the maximum price given for levy sugar to some mills being Rs. 441 per quintal as compared to the price of Rs. 117 per quintal to some other mills - and as a corollary, the formula of "cost plus" adopted for pricing has penalised efficient units; and finally, between November 1972 and July 1975, the "minimum" price paid for levy sugar - based on cost calculations - shows a decline, when the general index of wholesale prices showed an increase, over 1973-74 and 1974-75, of nearly 2 per cent per month. In fact, the minimum levy price in July 1975 was the same as in the 1969-70 season while the price index of cane had meanwhile risen significantly, by 24 per cent (in terms of the index of wholesale prices).

(l) By way of further comment on the consequences of the above policy, as also on the surplus of sugarcane and sugar production that has recently arisen, one can do no better than to quote from the Economic Survey 1978-79:

"The existing glut in sugarcane appears to be the result of a large increase in the area under the crop due to a great improvement in its relative profitability. This improvement in profitability seems to have resulted from high state advised prices which the sugar-cane mills pay to the farmers and not due to any appreciable increase in yields. It must be stressed, however, that this benefit accrues to a limited group of cane growers. As the bulk of sugarcane is used for the production of

khandsari and gur, particularly in the Northern region, farmers whose output is so utilised hardly get any benefit from high state advised prices. Sugarcane is one of the most water-intensive crops and in a country where irrigation is relatively scarce the availability of undue advantage to this crop is likely to aggravate the existing problems of sugarcane production and also the growing imbalances in the production of other important crops."

The Draft Plan (1978-83) also stresses that "a rational pricing of sugar-cane which is consistent with the pricing policy for sugar and which provides for assumed supply of cane, is a pre-condition for the long term viability of the industry".

(m) The Sugar Undertakings (Take Over of Management) Ordinance (now Act) is likely to have the following effects:-

(i) The continued operation of the sugar factories would help the cane-growers to sell their standing cane and a great deal of disruption in the agrarian economy would thus be avoided.

(ii) On the other hand, the cost of production of the sugar mills taken over would be considerably higher than the sales realisation from sugar. As a result, a significant subsidy would have to be given from the budget to keep these units running, to sustain the production of cane in high cost areas, and to support the consumption of sugar at the expense of khandsari and gur. As a result, the inefficient sugar factories would continue to operate with a subsidy which may be difficult to remove.

(n) The sugar industry has been clamouring for relief and as a measure of relief, it is understood that the Government of India has agreed in principle to hold 5 lakh tonnes of sugar as a buffer stock. The industry request was for Government to hold a buffer stock of 15 lakh tonnes, and it is understood that the possibility of increasing the buffer to 10 lakh tonnes is under consideration. The mill industry has also been asking for control over releases of sugar, to which the Government has not agreed. It is understood that of late the millowners have agreed to voluntarily restrict the releases of sugar on the free market.

(o) The total capacity of sugar which is currently under implementation - by way of new factories coming up or expansion of existing factories already underway - is 15.48 lakh tonnes annually, and this additional capacity is estimated to fructify by 1982-83.

(p) While the consumption of sugar has gone up, there are no estimates of gur consumption. However, as noted earlier, the price of gur - except for special varieties sold at high prices in Maharashtra and West Bengal - has taken a nosedive. In the past, the price of khandsari has generally been about Rs. 50 per quintal less than the price of sugar; and the price of gur at least another Rs. 100 to Rs. 150 less. (See Annex 14.2 for chart.) With the retail price of sugar at around Rs. 225, and the excise

duty on khandsari totally removed, both khandsari and gur prices have reached levels below which the cane would not be converted at all. In fact, if this situation continues, it can be expected that the area under cane will go down significantly in 1980-81. It has been reported that this has already started happening in Tamil Nadu, Karnataka and Andhra Pradesh, where the State Governments have not agreed to extend a subsidy on cane over and above the statutory cane price. The upshot is that cane cultivation has started going down in areas where cane growing is relatively most economical; and has continued in areas where cane growing is sub-optimal in relation to other competing crops. Over a longer period, as a direct result of the combination of circumstances and policies, the output of sugarcane, and therefore of sugar, may well start declining after another year or so, and demand may outstrip supply, resulting in a pressure on prices. Even if an imbalance between supply and demand in the aggregate may not arise, this development could delay the transition in regard to a more optimal cropping and locational pattern in respect of cane cultivation and sugar production.

14.4 Other controls

14.4.1 The extant controls over sugarcane/sugar and related items as on 31.3.1979 are indicated in Annex 14.3.

14.4.2 The Sugarcane Pressmud Control Order of 1959 purports to control the sale of pressmud - a chemical substance with manurial properties left as a residue in the process of filtration and clarification of sugar from cane juice - to ensure that pressmud is sold only to purchasers who would use this stuff as manure. The purchaser is expected to furnish a certificate in writing that he will sell or use pressmud only for this purpose. In case of stocks left over at the end of the season, sugar factories are permitted to sell pressmud to other users after obtaining approval of the competent authority. While it is desirable that good manure should not be used for non-manurial purposes, the order does not seem to be one capable of being implemented. Any purchaser can give a certificate that he will use pressmud only for manurial purposes, and it is not possible really to check the final end use. Nor does it seem to be necessary to restrict the use of pressmud should there be any other demand for this product for industrial purposes. In any case, the demand for pressmud as of today arises only as a manure.

14.4.3 The Gur (Regulation of Use) Order of 1968 purports to limit the use of gur -

(a) for direct consumption in the form of gur;

(b) for preparation of a food or drink item or for medicines for human consumption, other than the preparation of alcoholic liquor; and

(c) for limited use in the tobacco, leather tanning, chemical industries and certain other industrial uses as may be permitted from time to time.

14.4.4 The main purport of the above Order seems to be to prevent the use of gur for the distillation of alcoholic beverages. It does not appear to be feasible to implement the Order. The control over alcoholic liquor has to be the responsibility of the Excise staff. Since the Gur (Regulation of Use) Order has been issued under the Essential Commodities Act, its implementation is the responsibility of civil supplies department officials who are not excise officials charged with the responsibility of enforcing prohibition or prevention of illicit distillation of alcoholic beverages. Gur is one of many items which can be used for distillation of alcohol. As such, the Order does not seem to be really necessary, since it can only provide a means of harassment rather than of effective control over the misuse of gur for distillation of alcoholic beverages.

14.4.5 The Order relating to stock holding limits of sugar and khandsari by recognised dealers was rescinded on January 16, 1979. It would be seen that this control was lifted only some six months after the decontrol of sugar. This shows, inter alia, how all controls tend to be sticky.

14.4.6 Finally, the Sugarcane Control Order and the Sugar Control Order, both of 1966, are still valid, though all notifications pertaining to the production, sale, movement and price of sugar have been rescinded. The question that arises is as to whether it is necessary to keep the control order on Sugar as valid since the existence of the control order gives authority to the executive branch of the Government to issue a notification at any point of time controlling any aspect of the industry at any point of time. It has seperately been argued in Chapter 7 on Essential Commodities that considering the wide powers conferred on the executive under the Essential Commodities Act, items which are not subject to control or are not required to be controlled should no longer be kept on the statute book. The Sugarcane Control Order is necessary in that the price of cane is regulated under this Order.

14.5 Evidence tendered

14.5.1 There has been wide diversity in the evidence tendered before the Committee; and indeed, variations between the evidence tendered and the further representations received by the Committee after decontrol of sugar in August, 1978. Sugar producers in the South and in Maharashtra have been in favour of total decontrol; but even they have been demanding the setting up of a buffer stock of sugar to be maintained by Government. The Indian Sugar Mills Association has pleaded that control, if relaxed, should be accompanied by decontrol of sugarcane prices. The sugar mills of Bihar and Eastern UP have pleaded for the continuance of control - and different "retention prices" for sugar mills in different regions - on the ground that the cost of production of sugar varies greatly in different regions.

14.5.2 The consumers have generally recommended decontrol, though one cross-section has asked for a subsidised price of sugar to be supplied from the ration shops - implying, in other words, a continuance of the dual price system. The administrative Department concerned has been in favour of decontrol, mainly with a view to a correction being applied to the many distortions which had developed. Some State Governments have pleaded for increased licensing of sugar mills to match the increased capacity for cane growing in irrigated areas.

14.6 Objectives of policy

14.6.1 The objectives of decontrol, instituted since August 1978 as stated by the Department of Food were, briefly:

(i) that in a situation of surplus, the rigidities inherent in a controlled economy should be done away with;

(ii) that the benefits of increased production and better production methods (in terms of cane growing) should be available to consumers in the shape of lower prices;

(iii) that the consumption of sugar should be increased with free availability to all, including the rural consumers; and

(iv) that there should be a better balance between the supply and requirement of cane.

14.6.2 In retrospect, the first three objectives, or more particularly, the second and third objectives, have been achieved. The fourth objective has, however, not been achieved because the lever for achieving it - the price of cane - has not been available. Only a uniform all-India cane price, callibrated to sugar recovery, could bring about the required adjustment. But this has not come about.

14.6.3 There have been two unfortunate results of this policy. First, the reduction in cane area has not been achieved in precisely the States where this was most desirable, namely, Bihar, Uttar Pradesh, Haryana and Punjab; where cane cultivation is economically sub-optimal because of low sugar content and short duration of the cane crop. Secondly, the reduction in cane area has in fact occurred in the tropical areas where cane cultivation is relatively more efficient.

14.6.4 It can be, and has been argued that a period of transition is necessary; that the farm economy cannot be exposed to sudden swings of policy nor to unplanned price fluctuations; that the adjustment should be gradual and that revised prices should always be announced before "sowing" of a crop. This would give a reasonable policy frame. Unfortunately, there has been no such announcement before the sowing of the 1979-80 sugarcane crop, which has only just been completed over February/March 1979; and according to preliminary reports, there has been no reduction in the area sown under sugarcane in Bihar, U.P., Haryana and Punjab, where the State Governments have provided a subsidy to the cane growers, for the difference between the erstwhile "State advised" price and the Centrally notified price of cane.

14.6.5 The correct long term objectives of policy ought to be to:-

(a) fix an uniform price of sugarcane on an all-India basis so that an optimal land use can be brought about;

(b) fix cane prices at a level that would reflect a proper parity with other crop prices, such that the production of all important crops can be assured;

(c) ensure that the objective of optimal location of industry - to be gradually brought about - is reconciled with the assurance of a cash

crop to farmers in all areas; this could be done by locating other promising cash crops in Bihar, U.P., Haryana and Punjab, in areas formerly growing cane for sugar factories which are unlikely to survive long;

(d) ensure that growth of khandsari and gur production is not adversely affected, as they provide employment and income to the rural community, and in fact, supplemental income to the farming community; and

(e) bring about an orderly transition and avoid disruption.

14.6.6 The present policy does not appear to be adequate to achieve an orderly transition to a more rational system of cane and sugar production.

14.7 Policy options

14.7.1 The problem therefore is to find a somewhat longer term solution to the imbalance which continues. The solution has to be practical, and such as would smoothen the transition, and at the same time protect both the consumer and the farmer. It has also to be such as would protect the decentralised sector (in terms of gur and khandsari production).

14.7.2 In principle, one should also endeavour to develop processing industries for agricultural products in the form of co-operatives of the growers. This could eliminate many problems and impart reasonable stability to supply, and at the same time avoid the major problem of a clash of interest in the matter of pricing of sugar and sugarcane. If all sugar factories were co-operatives of cane growers, the nexus between sugar and sugarcane price would get established automatically (as it is today in Maharashtra).

14.7.3 However, the above option is not always open because of the pattern of ownership of many existing sugar factories. Nor would it be feasible to suggest the co-operative form of production in an area where production has to be phased out as fundamentally sub-optimal.

14.7.4 It is no longer possible - and even if possible, not desirable - to return to the erstwhile system of dual pricing. Control over releases of sugar is also not desirable under a system of decontrol. Nor would it be desirable to decontrol the price of sugarcane - as the sugar industry has been asking for - in the interest of the farm economy. An orderly transition has to be found whereby over a period of years, the most uneconomic factories could be closed down gradually, and an attempt could be made to re-employ the labour in new industrial activity.

14.7.5 The present policy of decontrol over sugar prices and sugar releases with unrealistic prices of cane, also does not appear to be advisable. Between the two extremes of decontrol, associated with a take over of factories not able to function economically under decontrol, and a return to the past system of controls, there is an option of gradual change. The starting point of this change has to be a more realistic cane price which should be uniform on an all-India basis, related to the recovery of sugar. Any other policy would lead to an inefficient system and sub-optimal use of our limited land resources.

14.7.6 With uniform all-India prices, many farmers in the North would shift to other cash crops. Today, there are possibilities of such cash crops being raised, as also of

improving the cane economy in a variety of ways. Agronomical researches have made both a possibility, and one can reasonably expect that there would be a reduction of cane area in favour of other crops in U.P. and Bihar. Farmers in Haryana and Punjab would quickly change over to other cash crops - and even wheat and rice are cash crops in this surplus State - provided the price parity warranted the switch. In Bihar and U.P. some sugar mills may have to be closed down owing to lack of cane, or because cane crushing involves a cash loss. The infrastructure facilities there could be used for other activities like cotton yarn spinning mills, of which there is a shortage, while the equipment could be shifted to areas where sugar production is economically justified. Indeed, it would be economical to pay a capital subsidy for such transformation - of sugar to other types of industrial activity - so that in the long run, there is no continuing subsidy, which is already quite substantial.

14.7.7 For the sugar factories that can continue on an economic basis, it would be best to convert the factories into co-operatives of cane cultivators with universal membership. This would automatically bring about a nexus between the sugar price and the cane price. Since the average realisation from cane would be higher than at present, the system would not be unfair to the cane growers involved.

14.7.8 To the extent that the "nexus" between the cane price and the sugar price makes the expansion of the cane area a matter of relative prices and of net earnings, a restraint on the growth of cane area in the north would be a voluntary decision of the cane grower, and not forced on him by the Government.

14.7.9 It is recommended, therefore, that the sugar mills with the possibility of long term viability on the basis of a more realistic cane price, the management of which has been taken over, should be reconstituted as co-operatives of the cane growers in the command area. This should be preceded by a timely uniform cane price (in terms of sugar recovery) throughout the country, so that a few of the mills can be closed down and the start of new activity subsidised in lieu.

14.7.10 Such a policy is desirable to avoid a continuing subsidy on sugarcane as well as on sugar production which is implicit in a take-over of uneconomic sugar factories.

14.7.11 Where the sugar industry is not likely to be viable, there should be a phased programme for converting sugar units into centres for other industrial activity e.g. cotton yarn spinning for supply of yarn to handlooms, even if based on cotton obtained from other States, or other agro-based industries. For this purpose, a subsidy may be given for the required change-over.

14.7.12 In regard to the problem of the large stocks of sugar, the suggestions of the mill industry have been twofold; first, that Government should hold a buffer stock recommended variously at 10 to 15 lakh tonnes, and secondly, that releases of sugar should be controlled by Government.

14.7.13 The concept of buffer stocks is essentially relevant for meeting cyclical variations in output. If there is a structural and long term imbalance, buffer stocking cannot provide a solution unless it is envisaged as a method of providing for a smooth and easy transition. But then, buffer stocking can provide a basis for smooth transition if it is also accompanied by appropriate policies and an action programme calculated to solve the long term problem, on the lines indicated above.

14.7.14 In the absence of a consistent long term policy, there are two dangers. If the present situation continues, sugar mills would gradually close down, and their management would be taken over. The closing units would get subsidised, and the subsidy would become a continuing drain on resources. Alternatively, if sugar mills are allowed to close down, the output of sugar would decline; the area and output of sugarcane would also decline; and over a period, sugar prices would increase in response to a shortage. It would, therefore, be desirable for society to subsidise the transformation by a subsidy on the holding of a buffer stock. The size would have to be determined on pragmatic rather than on any strictly theoretical reasons.

14.7.15 In the absence of a consistent policy of the type described earlier, the subsidy for the buffer stocking of sugar - in the context of a structural imbalance-would involve a cost to society without achieving any long term purpose. The justification for Government subsidy for maintaining sugar buffer stock to prevent swings in prices would arise only as a part of a long term policy, which may bring about a better balance between supply and demand.

14.7.16 An essential ingredient in the long term policy for sugar is an uniform pricing of sugarcane adjusted for recovery of sugar, throughout India, to bring about the optimal utilisation of the land resources of the country.

14.7.17 Control over sugar releases would be difficult to justify unless such control is exercised for achieving a social purpose like the evening out of month to month supplies in a situation of near equilibrium between supply and demand over the sugar year as a whole. Such a situation does not exist. A policy of buffer stocking could achieve the same purpose - without any control - provided the other condition were satisfied, namely, policies calculated to bring about a reasonable balance between supply and demand (on a long term basis).

Chapter 15

TEXTILES

15.1 Introduction

15.1.1 The textile industry is one of the oldest of organised industries in India. Of the total estimated employment of 5 million workers in manufacturing industry, the organised textile mill industry accounts for around 1 million, or 20 per cent. In addition, around 9 million workers are estimated to be employed in the decentralised sector of the textile industry.

15.1.2 The importance of the industry - which, next to food, provides a basic necessity of the common man - can be seen not only from the large employment it provides but also from the substantial revenue it contributes to the Government, and the significant contribution it makes to the export earnings of the country. In 1978-79, excise duties on cotton textiles and man-made fibres amounted to Rs. 715 crores. In 1977-78 the exports of cotton and woollen textiles and manufactures thereof (including the exports of handwoven woollen carpets) amounted to Rs. 739 crores. Thus, in its totality, the textile industry has come to occupy a pre-eminent position in the Indian economy.

15.1.3 In 1976, the total production of cotton textiles amounted to 7945 million metres, as against 4740 million metres in 1951. Over this period, the production of mill cloth was generally stagnant, increasing nominally from 3727 million metres in 1951 to 3881 million metres in 1976. As against this, the production of cloth in the decentralised sector increased from 1013 million metres in 1951 to 4114 million metres in 1976, and the share of the decentralised sector increased from some 21 per cent in 1951 to 51 per cent in 1976. Within the decentralised sector, both handloom and powerloom production have registered increases, as follows:-

	(million metres) 1951	1976
Handloom	813	2380
Powerloom	200	1734

15.1.4 Next in importance to cotton cloth is cloth made from man-made(synthetic) fibres, accounting for 901 million metres, or 9.5 per cent of the total cloth production, in 1976. Around 597 million metres, or 6.3 per cent of the total cloth production, were produced in 1976 as blended/mixed fabrics. Roughly, 58 per cent of the production of mixed/blended fabrics was in the mill sector, and 42 per cent in the decentralised sector. Of late, there is an increasing trend for the production of blended fabrics, the output of which increased to 1463 million metres in 1977. 1/

1/ Since a proper break-up of the latest figures is not readily available, the growth figures given in para 15.1.3 pertain to the period 1951-76. The absence of the of the latest figures is not of any significance in this connection.

15.1.5 During the period 1951 to 1977, per capita availability of cloth increased at a slower rate than per capita real income - the former by 22 per cent and the latter by 50 per cent. 2/ In the growth of per capita availability, however, two phases are discernible. While the availability increased from 11 metres in 1951 to 16.5 metres by 1965, it declined to 13.4 metres by 1977. 2/ Over the period as a whole, there was an increase in the proportion of synthetic and blended cloth varieties accompanied by a fall in the proportion of fine and superfine varieties.

15.2 Problems of the textile industry

15.2.1 Government's own assessment of the problems of the textile industry has been brought out in a statement made by the Minister of Industry in both Houses of Parliament on 7th August, 1978 on Textile Policy. According to the Policy Statement the main objectives sought to be achieved by the new textile policy are -

"(i) Production and availability of adequate supplies of cloth, of acceptable quality and at low prices, for the masses;

(ii) Improved arrangements for the distribution of this cloth to the weaker sections of the population;

(iii) Rapid development of the decentralised sector, including handlooms, khadi and sericulture and maximisation of employment thereby;

(iv) Harmonious balance between the use of cotton and synthetic fibres, ensuring that the incomes, and employment of cotton growers is maximised and optimum use is made of the potential for the production of synthetic fibres from the high aromatic gas, and naphtha feed - stock available in the country."

15.2.2 The proper development of cotton, through the grant of reasonable support prices, and the stabilisation of raw cotton prices, should also be construed as an integral part of textile policy.

15.2.3 In a study of controls over the textiles industry, therefore, the following areas of control become relevant:—

(i) raw cotton;
(ii) cotton textile mill industry;
(iii) the decentralised sector;
(iv) the "multifibre" policy;
(v) the woollen industry; and
(vi) distribution.

15.3 Raw cotton - problems and issues

15.3.1 Raw cotton constitutes a major part of the cost of production of cotton yarn and cotton textiles. It accounts for about 65-70 per cent of the cost of yarn and approximately 45-50 per cent of the cost of cotton cloth. Assured supplies of raw cotton at

2/ Government of India : Economic Survey, various issues - see for example 1970-71 and 1978-79 issues.

reasonable prices are, therefore, essential for the growth of the cotton textile industry. However, being largely a rain-fed crop, the output yield rates, and prices of raw cotton have, in the past, been highly unstable, as would be seen from the following table:–

Table I

Area and Production of Raw Cotton

	Area ('000 hectares)	Production ('000 bales)	Yield (Kgs./hectare)	Price Index 1970-71 = 100
1960-61	7,610	5,550	124.0	43@
1970-71	7,605	4,763	106.5	100
1971-72	7,800	6,950	151.5	108
1972-73	7,679	5,735	127.0	92
1973-74	7,574	6,309	141.6	138
1974-75	7,562	7,156	160.9	169
1975-76	7,350	5,950	137.6	136
1976-77	6,885	5,839	144.2	198
1977-78	7,815	7,103	154.5	126

@ derived

15.3.2 It would be seen that although there is a secular improvement in output, fluctuations in yield rates - and even the area sown - have continued to bedevil the cotton scene. The Committee feels that sufficient attention has not been given to the basic requirement of stabilising and raising the output of raw cotton in the country. The need for steps to raise the output and yield assumes urgency if the ambitious target of raw cotton set for the Sixth Plan period is to be achieved. In the context of the long-term realised growth of only 3 per cent per annum since 1950, the Committee is of the view that unless a package of measures is urgently introduced, the target of 92.5 lakh bales for 1982-83, against the output of 71 lakh bales in 1977-78, may not be realised. The Committee notes that the Textile Policy Statement of 7th August, 1978 has also emphasised the need for stepping up production through improvements in the yield by the provision of irrigation facilities and other essential inputs.

15.3.3 Raw cotton prices have also been prone to the characteristics, common to most agricultural products, of very wide intra-year fluctuations, with low prices at harvest time and high prices later in the year.

15.3.4 An important objective of policy has to be to ensure that supplies of cotton are adequate and are available throughout the year at prices remunerative to growers, and also equitable to the textile industry.

15.3.5 The price of raw cotton has been subject to control since the 1943-44 cotton season. The control has since been covered under Essential Commodities Act of 1955, and actually exercised under the Cotton Control Order, 1955. This Order empowers the Textile Commissioner to fix the maximum and minimum prices, and also to regulate the distribution, of raw cotton or kapas or cotton seed. The floor and ceiling prices were reviewed by a study team in the mid-sixties which recommended removal of the ceiling prices as ineffective and the announcement of realistic support prices for all varieties of cotton annually, instead of statutory floor prices. This policy came into effect from September, 1967.

15.3.6 In order to give organisational support, the Government of India established the Cotton Corporation of India (CCI) in 1970. The objectives of the CCI are -

(a) to carry out support operations and to ensure minimum support prices to growers of cotton;

(b) to procure indigenous cotton exclusively for the NTC mills against their specific variety-wise requirements and indents; and

(c) to act as the canalising agency for the import of raw cotton and for the export of domestic long staple cotton as and when required.

15.3.7 The Corporation purchased 5.35 lakh bales of domestic cotton in 1976-77 and 6.5 lakh bales during 1977-78. As stated by the Chairman of the Corporation, the CCI had plans to purchase about 12 lakh bales in the 1978-79 cotton season though the NTC has indicated its intention to indent only about 6 lakh bales.

15.3.8 One of the main objectives of the CCI has been to carry out price support operations and to ensure minimum support prices to growers of cotton; and to build up a buffer stock of cotton so as to be able to stabilise the price. In regard to the main objective, the operations of the CCI have not made any impact. The support prices announced have not helped to stabilise cotton prices because the support prices have been well below ruling market prices as the following table would indicate:-

Table II

Support prices of cotton vis-a-vis market prices

(Rs. per quintal)

Year	Basic cotton variety of 27/32 inches staple length	Minimum support price	Market price for kapas in Bombay	
			Lowest	Highest
1970-71	Vidarbha/MP Virnar *	299	560*	813*
1971-72	" *	**	427*	608*
1972-73	Punjab -American 320-F	142	198	245
1973-74	"	170	269	306
1974-75	"	195	298	375
1975-76	"	210	262	290
1976-77	"	220	410	495
1977-78	"	255	271	430

* Cotton Lint

** No support price announced by Government

Source : Office of the Textile Commissioner, Bombay.

15.3.9 It would be seen that the support price for cotton has been well below even the lowest market price. It is, of course, not suggested that the support price must always be raised to the market price. But the support price must be reasonable, in terms of price parities with competing crops. In spite of market prices ruling far

higher than the support prices, there has been no increase in the acreage under cotton. As such, support prices could hardly be expected to have any impact on the growing of cotton. Furthermore, recently, when cotton prices declined (during the 1978-79 cotton year), there was panic, and there has been export of staple varieties of cotton even while market prices are well above the support prices announced.

15.3.10 There are many inter-related reasons why the CCI has failed to provide reasonable support in stabilising prices of raw cotton. Currently, the purchase programme of the CCI, which is drawn up on a year to year basis, has to be cleared by the administrative Ministry. The CCI has to await administrative instructions in regard to the quantum of purchases to be made and to some extent, its timing. A related constraint comes from the quantum of credit that is released by the RBI, which has only this year agreed to meet the full credit needs of the CCI's cotton purchase programme, which still remains limited to 12 lakh bales, and not open ended purchases as a part of price stabilisation operations. Various committees have, in the past, suggested that the CCI should buy something like 30% of the cotton crop annually. In June 1978, an inter-Ministry Committee was appointed to recommend, within a period of two months, an appropriate size of buffer stocks. The Committee in question has not as yet submitted its final report, although it is understood that its interim views have recently been made known to Government. It is understood that the recommendation merely endorses the view of the Chairman of the CCI in regard to purchase of 12 lakh bales of cotton. It may be recalled that the August, 1978 statement on textile policy (referred to earlier) has reiterated the need for the creation of buffer stocks of raw cotton. And yet, as indicated earlier, this year, Government has permitted the export of more than 2 lakh bales of staple varieties of cotton already, in order (reportedly) to prevent the further decline of raw cotton prices in the market.

15.3.11 The Committee notes that an excellent opportunity for building up an adequate buffer stock has been lost in 1978-79 due to Government policy in regard to the export of raw cotton, even though the announced policy has been a build-up of buffer stock of cotton. What is particularly intriguing is that from the point of view of monetary expansion - in the context of increasing foreign exchange reserves - the export of cotton is likely to lead to the same extent of monetary expansion as the advancing of credit to enable purchases by the CCI for building up a buffer stock of cotton. The Committee would recommend that --

(a) the CCI should be asked to buy at least 30 per cent of the cotton crop as suggested by many earlier committees;

(b) the CCI should be given the requisite credit facilities for doing so;

(c) the CCI should be asked to intervene in the market on the basis of its own judgment, the Ministry giving only broad policy guidelines;

(d) the CCI should be asked to gradually build up a buffer stock of cotton, the size of which may be decided after expert enquiry; and

(e) the CCI should be given the requisite credit facilities for building up the buffer stock.

15.3.12 The CCI has not been particularly successful as an effective canalising agency for the import of raw cotton. The shortfall in production in 1976 was made up by

imports of about 11 lakh bales in 1976-77 and 4 lakh bales in 1977-78. These were reportedly purchased at higher than ruling prices in the domestic market. When domestic prices showed a downward trend in 1977-78, imported cotton had to be sold at a loss at a price about 20 per cent lower than cost resulting in a loss of Rs. 70 crores. However, the Committee finds that these losses on imported cotton arose first from the wrong direction given by the Ministry to the CCI in regard to the timing of the purchases. They also arose from the refusal of the mills to buy imported cotton from the CCI after placing firm orders for given quantities. The illogicality of periodically exporting cotton at low prices and importing it at high prices arises from the lack of a firm policy regarding buffer stocks.

15.3.13 In the evidence tendered before the Committee, divergent views have been expressed on this issue. The India Cotton Exchange and the Indian Cotton Mills Federation (ICMF) have understandably represented against the canalisation of cotton import by the CCI; against the monopoly cotton procurement scheme of the Maharashtra Government; and against any extension of State trading in cotton. The views of all other interests have been quite opposite, and independent experts have recommended a closer link between cotton and cotton processing - at least upto the ginning and pressing stage. The farmer would thus get a larger share of the market price of cotton through the organisation of co-operative ginning factories and the marketing of cotton through them. The Committee feels that there should be no canalisation of and no subsidy on imported cotton in future.

15.3.14 In order that the CCI can become a potent instrument for implementing the policies of Government of India in respect of raw cotton, the Committee recommends that it should be made less bureaucratic, more independent and more responsive to the needs of both the farmers and users of cotton. For this purpose, while the Government of India should retain majority shares in the CCI, part of the equity should be held by - and representation on the Board of Directors of the CCI given to - the State Cotton Marketing Federations of cotton growing States, co-operatives of cotton farmers, co-operative cotton ginning factories and users of cotton like the National Textile Corporation of India (NTC).

15.3.15 The Committee also recommends that the cotton growing States should be encouraged to form cotton marketing agencies, and that the cotton trade should be gradually handled only by the Cotton Corporation of India, the State Marketing Federations, and the co-operatives of cotton ginning factories.

15.3.16 Whatever may be the price of cotton, the grower invariably gets a raw deal because he is forced to sell unginned cotton. The holding capacity is with those who control cotton ginning and pressing factories. Wherever cotton growers have organised co-operatives of ginning and pressing factories, their real earnings have gone up. The Committee would, therefore, recommend that the ginning and pressing of cotton should be reserved for co-operatives of cotton growers with universal membership to the extent possible. All existing cotton ginning and pressing factories should be converted into co-operatives, unless they are owned by Government. This process should be completed within three years. The Committee notes that already, there are 198 co-operative ginning factories in the country out of a total of 865, and the quantum of cotton ginned by the co-operatives in 1976-77 was 10.31 lakh bales as compared to the total production of 59.50 lakh bales. The co-operative ginning and pressing factories comprising of cotton farmers will also become shareholders of the Cotton Corporation, which would buy lint from these co-operatives.

15.3.17 The Cotton Control Order of 1955 provides for controls on stocks of cotton to be held by mills and by the trade. Since raw cotton supplies have been fluctuating sharply from year to year, the intention is to regulate the availability of raw cotton to all mills in an equitable manner. The Control Order of 1955 also embodies provisions relating to packing specifications, transportation of cotton, licensing of dealers and stockists of raw cotton. The Committee notes that despite the stringency of the control order and extensive nature of its provisions, the Cotton Control Order has failed in its objective to stabilise cotton prices or to reduce speculative trade in cotton. The Committee, therefore, feels that the Order is futile, and that the objective of policy can be realised only through the steps indicated above, namely, co-operative form of organisation for cotton ginning factories, and effective intervention in the market - together with a build-up of buffer stocks - by the CCI. Once this is achieved, the Cotton Control Order can be rescinded.

15.3.18 The Committee has two further suggestions in regard to the cotton problem. The attention of the Committee has been drawn to the fact that some 30 to 40 per cent of the cotton crop is lost every year as a result of pests. If the loss were to be even halved, there would be an adequacy of cotton availability, and the income of the cotton grower would also increase as a result of the larger output. The Committee is also informed that in respect of the cotton crop, pest control cannot be successfully tackled by individual farmers, as the disease spreads from untreated farms. To be successful, pest control in the matter of cotton requires a minimum of six sprayings every season, for which the small cultivator cannot afford the overheads, even though the return may later justify the expenditure. 3/ The Committee would recommend that pest control for the cotton crop should be taken up as a national programme, to be implemented by the State Governments. The Committee would also suggest that the Cotton Development Fund should be used for financing pest control in respect of cotton. The existing cess on cotton consumed by the mill sector is only 25 paise per bale. This should be raised to Rs. 50 per bale to meet the requirements of funds for effective developmental outlays to increase cotton production. Assuming a price of, say, Rs. 3000 per bale of cotton, a cess of Rs. 50 per bale would amount to only about 1½ per cent of the price. As against this, with cotton production at 70 lakh bales, the cess would yield Rs. 35 crores annually. The funds should be used for improving productivity, financing pest control, through aerial spraying and to pay for the interest cost of a buffer stock of raw cotton. Assuming a carry-over of 7 lakh bales (at 10 per cent of current output), and again assuming a price of Rs. 3000 per bale, the value of the stock would be Rs. 210 crores. The interest cost of this inventory @ 14 per cent interest, would be Rs. 29 crores annually. In the longer run, the buffer stock should be higher, and the cess should be increased. But to begin with, the value of the operation has to be demonstrated first.

15.4 Cotton textile mill industry

15.4.1 The major problems of the cotton textile industry were increasing sickness of the mill sector, the need to encourage the development of the handloom sector, the need for a consistent, long-term policy regarding the use of cotton and synthetic fibres, and lastly, the need to provide an adequate supply of cloth of reasonable quality at low prices to the masses through a viable distribution system. All these problems are linked together, and it is not easy to separate them or to suggest piecemeal solutions. The current problems of the cotton textile industry are briefly reviewed below in the light of controls and subsidies which are currently in force.

3/ See also Chapter 17 "Fertilisers and Pesticides", para 17.9.5

Controls and subsidies

15.4.2 The genesis of the controls on textiles dates back to 1942 when there was widespread shortage of cloth and yarn due to the cessation of imports, increase in the requirement of cloth for defence purposes, and a marked reduction in the availability of cloth for civilian uses. After independence, the objective was to boost the growth of handlooms, and to provide cheap cloth at controlled prices. The shortage of cloth after the Chinese War of 1962 coupled with increasing use of man-made fibres and wide fluctuations in the prices of cotton, necessitated a series of control measures in order to pursue the above (somewhat conflicting) objectives of policy. Over the years, the controls have multiplied, with the introduction of fresh controls and numerous amendments thereto, with the result that the entire control system in regard to textiles has become highly complex, and to a large extent difficult to comprehend, to comply with, and to enforce.

15.4.3 Basically there have been 9 control orders which have regulated the textile industry at one time or the other, since 1948. These are listed below:

1. Cotton Textiles (Control) Order, 1948.
2. Cotton Textiles (Control of Movement) Order, 1948.
3. Cotton Control Order, 1955.
4. Cotton Textiles (Production by Handloom) Control Order, 1956.
5. Textiles (Production by Powerlooms) Control Order, 1956.
6. Art Silk Textiles (Production and Distribution) Control Order, 1962.
7. Textile Machinery (Production and Distribution) Control Order, 1962.
8. Woollen Textiles (Production and Distribution) Control Order, 1962.
9. Textiles (Production by Knitting, Embroidery, Lace Making and Printing Machines) Control Order, 1963.

15.4.4 As far as the cotton textile industry is concerned, one of the objectives of policy has been to regulate the weaving capacity of the mill sector with a view to encouraging the growth of production in the decentralised sector. Apart from this physical control on the number of looms, the same objective is also sought to be achieved through regulating the modernisation of equipment and technological improvements in the industry. Purchase/sale/installation and dispersal of plant and machinery by the mills are also regulated to ensure that the mill capacity is controlled and does not expand at the cost of the decentralised sector.

15.4.5 The policy of control over weaving capacity has been reiterated in the statement by the Minister of Industry on 7th August, 1978 on the new national textile policy. It has been mentioned in the statement that no increase in weaving capacity would in future be allowed in the organised sector. The bulk of additional textile requirement would be met from the decentralised sector, and increases in production of the organised sector would be limited to that arising from modernisation of outdated equipment. Powerloom capacity would also not be allowed to increase. Legislation would be introduced to prevent the growth of powerlooms. The existing unauthorised powerlooms would be registered and regularised on payment of a deterrent penalty.

15.4.6 In this context, it may be mentioned that quite often the sickness in the textile mill industry is attributed by the industry, inter alia, to licensing control on the expansion of capacity and impediments to modernisation of the industry. The Committee

is not convinced that licensing control on the mill sector has per se led to sickness of the industry. Different factors have contributed to sickness in different units. One important factor has been the play of inefficient or corrupt management. According to evidence received by the Committee, modernisation has not necessarily led to a reduction in the cost of production. Nor has modernisation led to increased exports, since most of the exports continue to be of the cheaper varieties of cloth. On the other hand, in the past, modernisation has contributed to a shift towards more sophisticated products sold in the domestic market at higher prices.

15.4.7 At present, the cotton textile industry is being provided soft loans for modernisation by the term lending institutions. Under the IDBI's Soft Loan Scheme, which provides for loans at concessional rates of interest for the modernisation and rehabilitation of selected industries, 201 applications from textile units involving a total outlay of Rs.415 crores had been received by the end of June, 1978. Sanction and disbursement under the scheme amounted to Rs.17.9 crores and Rs.5.8 crores respectively till the end of June, 1978.

15.4.8 The Committee has carefully considered the problem of modernisation of the textile industry in the context of the overall aim of Government's textile policy to demarcate spheres of production between the organised and the decentralised sectors. The Committee is of the view that modernisation permitted to the mills should not be allowed to be misused as an occasion for expansion of capacity. Furthermore it is not enough to merely issue guidelines - as has been done at present - that there should be no retrenchment as a result of modernisation, and that the employment potential within the unit should not be allowed to shrink. This should be enforced. While modernisation of the textile industry is certainly required, it is not necessary to make modernisation synonymous with the adoption of the most sophisticated technology which may not be appropriate for the country. The Government should aim at increasing the efficiency of the working of the equipment, reducing waste, and reducing downtime of the equipment through breakdowns. Thereby production can increase, and costs can go down without adversely affecting employment, and the cloth produced can be of a quality which most consumers can buy and use. Secondly, the Soft Loan Scheme which was originally meant to prevent the weaker mills from becoming sick has now been expanded to cover all textile mills. This is unwarranted. It implies a clear subsidy to well-endowed units in the organised sector, of a nature that is not available even to the decentralised sector. The specific uses of the Soft Loan Scheme should also be examined critically, to ensure that modernisation plans do not affect employment in the weaving section. In general, the greatest need and the maximum benefit pertains to modern preparatory and spinning equipment. It is also necessary that Government evolve a procedure for ensuring that these guidelines are implemented both in letter and spirit.

15.4.9 Another important control operating in the past has been price control on a part of mill output for some time on most common varieties, and lately on varieties defined as controlled cloth required for mass consumption. Under the scheme of controlled cloth production, the mills were obligated to produce a certain minimum quantum of controlled varieties of cloth and sell the same at the controlled price. Although the weak mills were exempted from the controlled cloth obligation in January, 1976, the obligation was partially restored in 1977. The actual production of controlled cloth was 823 million square metres in 1974-75, 658 million square metres in 1975-76, 364 million square metres in 1976-77 and 348 million square metres in 1977-78.

15.4.10 The scheme of controlled cloth has been subject to many limitations, and has also been a target of criticism from all sides. It has been widely felt that the controlled cloth scheme has not proved successful in providing cheap cloth to the weaker sections of the population. The mill industry has been particularly critical of this policy as a major factor in the sickness of the textile industry. Although cloth produced under this scheme has been heavily subsidised, the system of distribution has not been able to ensure that controlled cloth reaches the weaker sections particularly in rural areas. According to the August 1978 statement on textile policy, the losses suffered by the weaker mills on account of production of controlled cloth have been one of the important contributory causes for their sickness. The Committee notes, however, that in most cases, sickness in the textile industry pre-dates the stage when the price of controlled cloth began to fall short of production cost. The Committee is of the view that the obligation to produce controlled cloth has not been the only cause of sickness of textile mills. The Committee notes for example that by 1971, nearly a hundred textile mills had already become sick and had been taken over by the Central Government even before the scheme of controlled cloth production had become uneconomic when the production of controlled cloth was adequately subsidised through a scheme operated by the ICMF on behalf of the mill industry. Controlled cloth did contribute to the difficulties of textile industry in the early seventies inasmuch as quite a sizeable percentage of its output was required to be sold below the cost of production. As late as the mid-seventies, the price of controlled cloth remained pegged at the 1968 level. As the Committee has observed earlier in Chapter 4 on Approach, prices should not be controlled at a level below the cost of production.

15.4.11 The Committee notes in this connection that a new controlled cloth scheme has been instituted from 1.10.1978. The revised textile policy abolishes the compulsory obligation on the mills for the production of controlled cloth. The production of common wearables for the masses is to be entrusted in a phased manner to the handloom sector. In the meantime, the scheme provides for a certain quota (100 million square metres per quarter) of 'Janata' cloth to be produced by the mill sector. The NTC would supply bulk of this quantity. For the rest, private mills will be free to bid. If no such bids are forthcoming, the NTC mills will be asked to supply the balance also. The consumers are to be supplied this cloth at subsidised prices and the entire subsidy required for the production of Janata cloth is to be met from a surcharge of 10 per cent of the excise duty to be imposed on all other mill-made cloth, art silk, and other synthetic and blended fabrics including woollen cloth.

15.4.12 While the above is a better system for the supply of common wearables like dhotis and sarees at reasonable prices, the Committee finds that the distribution system for controlled cloth has in the past proved totally ineffective in making such cloth available to the target consumer group, both the urban and the rural poor. The Committee is of the view that the distribution of controlled cloth should be linked to the distribution of other essential articles to the target group.

15.4.13 The Committee is of the view that the distribution system could achieve the objective of reaching the target group by selecting only those varieties of goods for distribution as are largely purchased by the lower income groups, and by operating the system through shops located in areas where low income group people generally live. The Committee has also suggested, in Chapter 28 on Distribution Control, that it should not be beyond the capacity of Government to identify the target group, and to issue special ration cards for the really deserving poor.

15.5 Decentralised textile sector

15.5.1 The most significant control on the textile industry has been by way of reservation of certain items for production in the decentralised sector. The decentralised sector in textile industry has been identified as powerlooms, handlooms and khadi.

15.5.2 Despite the encouragement given to the handloom sector through reservation of certain fabrics for production exclusively by handlooms (as per Annex 15.1) handloom production has faced many problems which have dampened its growth. First, there are loopholes in the reservation orders which permit the mill sector to cut into areas reserved for handloom sector. For instance, 60 per cent of handloom production is in the form of dhotis and sarees. However, the mill sector is also permitted to produce plain white dhotis and sarees with borders not exceeding 1/4" in respect of dhotis and 2½" in respect of sarees. The recent introduction of running bales of printed synthetic and mixed fibre, suitable for sarees, has further cut into the market for handloom sarees. Secondly, the powerloom sector has been encroaching in a big way upon the area reserved for the handloom sector. There has, in fact, been a steady increase in the number of unauthorised powerlooms so much so that the number of powerlooms in the country is today estimated at 3 lakhs as compared to 1½ lakhs in 1963 and 20,000 in 1953. Thirdly, the handloom sector has been operating under a regime of acute yarn problems. The quality of yarn supplied to the handlooms is poorer and the prices of yarn for handlooms are considerably higher than the comparative prices borne by the mill sector. Fourthly, the advantage enjoyed by the handloom sector in the matter of excise duty is not available in respect of processed mixed fabrics so that the handloom sector does not have even a tax concession in respect of processed mixed fabrics which are increasingly demanded by the urban population for reasons of better washability and crease resistant characteristics.

15.5.3 In the evidence tendered before the Committee, the representatives of the handloom industry throughout the country have complained about the quality and price of yarn, about marketing difficulties, about lack of finance, and more importantly, about encroachment by powerlooms in areas reserved for handlooms. They have also complained of tardy payment of the subsidy on handloom cloth even to co-operative societies. In this connection, the Committee can do no better than to quote from a recent report of the Estimates Committee of Parliament on the handloom industry 4/:

> "The main difficulties experienced by the handloom weavers in regard to supply of hank yarn are that there are frequent shortages of hank yarn, the fluctuations in prices are very frequent, the yarn supplied to the weavers is of inferior quality....... (and) heavy transport cost adding to the price of yarn."

Again,

> "The Committee note that........Government have been following a policy of reservation of certain items of production in favour of handlooms...... The Committee are, however, distressed to note that these reservation orders are not being enforced effectively and that there are common complaints of large scale violations of these Reservation Orders by the Power-

4/ Estimates Committee (1977-78), Sixth Lok Sabha, Thirteenth Report, Ministry of Industry - Handloom and Powerloom Industries - Part I, March 1978. See, especially, pp. 22,43 and 159.

loom sector. The Committee feel that this is very distressing state of affairs and needs to be remedied without loss of time."

Finally,

"The Committee would like to emphasise that as the handloom sector suffers from a number of inherent disadvantages as compared to the mill and powerloom sectors, the problems of the handloom sector should receive serious attention while revising the tax structure on the textile industry with a view to ensuring that the competitive position of the handloom sector vis-a-vis powerloom and mill sector is adequately protected."

The Committee would only reiterate all the above views and recommendations. The Committee would make some specific suggestions on each of the above points in the succeeding paragraphs.

15.5.4 One of the measures adopted by the Government to encourage handloom production has been to plan for increased supply of cotton yarn to the decentralised sector. One step in this direction has been the policy of expansion of the spindleage of existing spinning mills and licensing of new spinning mills. At present there are 54 spinning mills in the co-operative fold and another 10 new spinning mills are being installed in the co-operative sector. The 64 co-operative spinning mills would have a production capacity of 105 million Kgs. of yarn. Most of them are designed to produce yarn of counts below 40, and as such are eminently suited to cater to the needs of the handloom industry.

15.5.5 The Committee has separately suggested, in Chapter 14 on Sugar, that one way to bring about a better balance and viability in the sugar industry today would be to close down some of the very high cost sugar units and to subsidise the conversion of these into co-operative yarn spinning mills, by using the land, buildings and infrastructure facilities available. It also happens that there is extreme shortage of yarn for handlooms in the areas where this is feasible. The Committee would recommend this step, in addition to the other steps already under contemplation.

15.5.6 The second step towards encouraging handloom production has been by way of regulating the supply of mill yarn to the decentralised sector including the handloom sector. In 1972-73, when an acute shortage of yarn was felt, a policy of statutory control was introduced beginning March, 1973. Under this, the price and distribution controls were imposed by the Government. The scheme, however, did not work satisfactorily, and had to be withdrawn soon, in April 1973, because of difficulties in working out a scheme of controlled distribution of yarn.

15.5.7 At present, there is an obligation on the spinning mills to produce a specified quantity/proportion of yarn in hank form so as to meet the requirements of the handloom sector. The existing mills are expected to produce 110 per cent of the level of hank yarn packings in 1974 and the new mills are to produce 60 per cent of their total yarn production in hank form only. With the passage of time, yarn production linked to 1974 output level is not likely to be adequate, and the Committee would recommend an increase in the hank yarn to be produced by mills until adequate new spinning capacity is established.

15.5.8 A major problem of handloom weavers has all along been lack of finance. According to evidence tendered to the Estimates Committee by the Department of

Textiles, out of a total credit requirement of around Rs. 300 crores, only around Rs. 25 crores are provided through the RBI and the commercial banks.[5] The Committee has made certain recommendations on this issue in Chapter 26 on Credit Control, as also in Chapter 25 on the Decentralised Sector.

15.5.9 On the basis of evidence received, the Committee is of the opinion that for the smooth and orderly development of the decentralised sector in textile industry, the following measures should be taken apart from those mentioned earlier:-

(i) The problem of unauthorised production, by powerloom sector, of items reserved for handloom, should be tackled through increased vigilance and by making penal provisions more deterrent. The Committee understands that the possibility of vesting the Textile Commissioner with the necessary powers in this connection is already under examination of the Ministry of Industry in consultation with the Ministry of Law. Since the State Governments have in the past been abetting in the growth of unauthorised powerlooms, the Committee feels a Central Government Agency (though not the Textile Commissioner) should be given the necessary powers, and the penal provisions against violations of the reservation order made more stringent, and subject to summary trial, under the Essential Commodities Act. The recommendations of the Committee on this point are given in para 15.9.9.

(ii) In order to facilitate survival of existing powerlooms, some categories of cloth should be reserved for production by powerlooms. The Estimates Committee had recommended this step in its 1977-78 Report, and the Committee would urge consideration of this suggestion.

(iii) A higher rate of tax should be imposed on powerlooms as a check on their undue growth.

(iv) To ensure adequate supplies of yarn to the handloom sector excise duty on yarn in cones should be higher than that on yarn in hanks.

(v) The area of reservation of products for the handloom sector should be enlarged to include sarees and dhotis with border.

(vi) The control over production of yarn in hanks should be made more stringent, both in regard to the proportion as well as quality as per ISI specifications. The production regulation should be extended to blended yarn so that this type of yarn is available to handloom weavers in hanks.

(vii) In order to overcome one of the chronic problems faced by the decentralised sector, namely, delayed payments - in this instance, delayed payment even by the Government, in respect of the subsidy on handloom - on production of 'Janata' dhotis and sarees, a simplified procedure similar to duty draw-back and cash assistance due through banks on submission of documents is called for. The documentation, for this purpose has, however, to be simplified drastically.

5/ Estimates Committee, op. cit., p. 68

Khadi

15.5.10 Khadi is even more employment intensive than the handloom industry. In the total output of cotton textiles, the share of khadi is only 1 per cent, but its share in total employment generated in textile industry is 15 per cent. It also provides supplemental income to cultivating families, as also to those who have seasonal occupation. Khadi is, therefore, an industry which needs to be protected. Apart from subsidy that khadi is getting, there is need for further promotional and marketing effort. There is also need for examining whether some product lines cannot be reserved for exclusive production in the khadi sector. Some of the specific measures that may help to improve the viability of the khadi industry are as follows:-

(i) Some institutional arrangements need to be made for the supply of raw cotton to the khadi spinners at reasonable prices and to lift the surplus yarn from this sector for supply to the handloom sector. This will require neutralisation of the price differential between mill spun yarn and hand spun yarn through a subsidy on hand spun yarn, specifically. This would, inter alia, give some competition to mill yarn, and help to improve its quality.

(ii) Consideration should be given to the reservation of certain varieties of cloth such as dosuti, tapestry, napkins, newar tapes, durries exclusively for the khadi sector. The specific items to be so reserved would, however, need to be examined in greater detail.

(iii) Extension facilities available to handloom weavers such as designing, processing, marketing, improved tools, technical know-how and testing arrangements should be made available to khadi weavers also.

(iv) Government purchases of khadi for its cloth requirements should be increased. Liveries and uniforms for Class IV staff including Railways, Posts and Telegraphs and other public sector undertakings could be made out of khadi as a matter of policy.

(v) Bank credit in general as also under the "Differential Rate of Interest Scheme" should be increasingly extended to the khadi industry by Rural Banks and other banks.

(vi) Market research in regard to consumer preference for khadi both at home and for export should be undertaken by the Khadi and Village Industries Commission.

15.6 Multi-fibre policy

15.6.1 The approach to multi-fibre policy has been influenced by the recurrent shortages and high prices of raw cotton. Its strongest protagonist has been the organised mill industry, and of late, the manufacturers of polyester fibre in the country. With the entry of public sector petro-chemical complexes as manufacturers of polyester fibre, a liberal approach to the use of synthetic fibres has been gaining official support. One of the considerations which has shaped this policy has been to ease the pressure on raw cotton, the production and prices of which have fluctuated

widely from year to year. Textile mills have seen in the policy on man-made fibres not only a supplementary source of raw materials, but also a means to meet changing consumer preference particularly for blended fabrics. Mills have been quick to exploit this preference. The manifestation of this is the fact that output of blended fabrics has registered a ten-fold growth over the last 7-8 years.

15.6.2 The Government of India has also emphasised the need for the introduction of the use of man-made fibres through various provisions in the control orders issued from time to time. The multi-fibre policy of the Government of India has undergone some change as reflected in the August, 1978 policy statement. Before examining the issues involved, the multi-fibre policy is briefly summarised below:-

(i) The Cotton Textiles (Control) Order, 1948 was amended in December, 1976 to provide that no manufacturer shall produce yarn without using man-made cellulosic and non-cellulosic fibres upto at least 10 per cent of the total fibre consumption in a quarter. The order has since been withdrawn.

(ii) Cotton spinning units can spin yarn with 99 per cent fibre other than cotton. Units registered for the production of cotton fabrics can produce mixed fabrics including synthetics with a minimum of 33 per cent cotton. If one of the components is wool, the wool content should be less than 25 per cent by weight.

(iii) While the silk spinning units can spin only viscose or synthetic fibres without the use of another fibre, silk weaving units can produce mixed fabrics in which the art silk content is more than 50 per cent by weight.

(iv) Woollen spinning mills can spin any product-mix of fibre having at least one per cent of wool but woollen weaving mills cannot produce mixed fabrics in which the wool content is less than 25 per cent by weight. However, woollen fabrics must contain more than 60 per cent wool.

15.6.3 It has been seen that in the past, raw cotton production and prices have fluctuated considerably, imparting a degree of uncertainty in supplies and, therefore, instability to the textile industry. The increased use of man-made fibres has been recommended by industry to ease the pressure on raw cotton. It has also been stated that there is strong consumer preference for blended fabrics largely because of better crease resistance and easier maintenance. While there is some validity as to the last point, the Committee would recommend caution in regard to the multi-fibre approach. First, cotton based textiles can provide more employment, and certainly more income to a wider cross section of the population through the impact on the farm economy. Secondly, as seen earlier, there is no reason why adequate quantum of cotton should not become available indigenously, with better management of the cotton economy. Thirdly, in India synthetics would not provide the best material for wearables as synthetics do not "breathe", and the climate in most part of the country for major part of the year would make synthetics unsuitable as the basic dress material. Finally, the production of non-cellulosic fibres like polyester involves dependence on imported oil, as also very heavy capital expenditure, and is therefore unsuited to India's resource endowment.

15.6.4 A policy of relatively liberal use of synthetics has also in the past tended to militate against the growth and development of the handloom sector for various reasons. Most of the blended yarn is appropriated by the mill sector. Secondly, the excise concession to the handloom sector is not available for blended fabrics.

15.6.5 The Committee understands that the multi-fibre policy has recently been examined by an inter-departmental Committee constituted by the Ministry of Industry. The Committee has not been able to go into the findings of this committee, nor seen the material that would have been placed before that committee. Nonetheless, the Committee feels that there are strong reasons for adopting a policy in which man-made fibres remain only a marginal factor in the total supply of raw materials for the textile industry. On a broad consideration of the long term needs and long term potential of the economy, the Committee would make the following recommendations on multi-fibre policy:-

(i) There should be no fiscal concession to synthetic fibre to the detriment of the cotton economy and employment.

(ii) There should not be any reduction of the import duty on polyester fibre in view of the possible impact of such a policy on the growth of cotton in the country. Even though the share of polyester fibre in the total demand for fibre in the country is at present very small, there is a potential danger of erosion of the role of cotton if the import of synthetic fibre is permitted at concessional rates of duty.

(iii) When the output of raw cotton in the short run falls below requirements, and until such time as a buffer stock of raw cotton can be built up, bulk imports of man-made fibres by the STC, on a well regulated basis, can be tried, in order to meet the requirements of the decentralised sector.

(iv) While regulating import and excise duties care must be taken that the balance of prices between natural and synthetic fibres is not disturbed against the interest of the natural fibres.

(v) The control order which stipulated compulsory use of non-cotton yarn to the extent of 10 per cent appears to be totally unneccessary at the present juncture. The Committee notes that in February, 1979 the Government has already withdrawn the compulsory use of 10 per cent of man-made fibres by the textile mills in order to encourage the use of cotton and arrest fall in cotton prices.

(vi) Today, there is some degree of compartmentalisation of the production of different categories of textiles, e.g., art silk filament yarn. In the evidence tendered to the Committee, different sections of the textile industry have made divergent recommendations in this regard. The Committee feels that for some time, protection to certain segments of the industry — by virtue of their different sizes and varying economic strength — would have to continue.

15.7 Woollen Industry

15.7.1 The woollen industry, like the cotton textile industry, has three types of producers: the relatively large integrated mills (but quite small in the matter of number of

looms as compared to the cotton textile industry); the smaller powerlooms and shoddy wool spinning and weaving sector; and the hand spinning and weaving sector. Within this broad contour, there arise a number of linked problems regarding development of the decentralised sector, availability of sufficient raw materials to the decentralised woollen industry, and protection to the woollen industry from encroachment by the much stronger cotton textile industry.

15.7.2 Government policies regarding development of the woollen industry have undergone periodic changes. Two most important features of current Government policies on the industry are mentioned below:-

(i) At present the import of raw wool for actual users in the woollen industry is under the Open General Licence, and there is no problem of availability of imported raw materials. The statement of the Minister of Industry in Parliament on 7th August, 1978, states "the past difficulties of raw material would be met by more liberal imports of wool as well as shoddy and increased use of acrylic". However, some kinds of weaving in the decentralised sector, particularly for carpet weaving, requires the more rough, indigenous wool, the supply of which is getting to be increasingly difficult.

(ii) The Textile policy statement of August 1978 further adds, "the ban on weaving capacity expansion in organised and powerloom sector will not apply to the woollen sector. While expansion of machine made carpets would not in general, be allowed, such expansion would be permitted in the export zones."

15.7.3 The relevance of controls on the woollen industry is evaluated in the light of the policy statement given above.

15.8 Controls on woollen industry

15.8.1 The woollen industry is subject to controls under the following provisions: —

(a) Imports and Exports (Control) Act, 1947;

(b) Industries (Development & Regulation) Act, 1951;

(c) Textiles (Production by Powerlooms) Control Order, 1956; and

(d) Woollen Textiles (Production & Distribution) Control Order, 1962.

15.8.2 Except for the production of carpet yarn, for which Indian wool is most useful, and for making barrack blankets and other types of coarse blankets, the industry is dependent on imported raw wool. From the early 1950s to 1957 (July) the import of raw wool was under the OGL. Thereafter, it was subject to import licensing, which has been fairly restrictive. As a result of the shortage of wool, capacity increases were also not permitted. The import of wool was canalised through the State Trading Corporation from November, 1967. Import was decanalised in February, 1977 and placed under free licensing. In the import policy for 1978-79, raw wool, like many other basic raw materials, has been placed on the OGL for the purpose of import.

15.8.3 The woollen industry has been regulated by the Industries (Development and Regulation) Act, 1951 right from the beginning. Upto 1960 almost all the units in the woollen industry had to abide by the various provisions of the Act, namely, to obtain a registration certificate if a unit was an existing unit, or obtain a licence for setting up a new undertaking. With the progressive increase in the exemption limit, some of the spinning units were likely to fall outside the purview of the Act, and to remove the possibility of unregulated installation of new spindles, amendments were introduced to the Woollen Textiles (Production and Distribution) Control Order, 1960, and later on in the Woollen Textiles (Production and Distribution) Control Order, 1962, issued under the Essential Commodities Act. As a result, the installation of any machinery in the woollen industry came under the purview of either the Industries (Development and Regulation) Act, 1951 or the Woollen Textiles (Production and Distribution) Control Order, 1962. Similarly, the installation of powerlooms in the woollen industry came within the purview of Industries (Development and Regulation) Act or the Textiles (Production by Powerlooms) Control Order, 1956, to regulate the installation and disposal of powerlooms used for production of non-cotton fabrics.

15.8.4 However, due to lack of adequate enforcement machinery, many spindles and powerlooms were installed without proper authority and Government had to regularise these unauthorised spindles and powerlooms.

15.8.5 The evidence tendered before the Committee on the woollen industry may be divided into three categories:-

(a) The decentralised sector has complained of serious shortages of Indian yarn, suitable for carpet weaving, as also of similar yarn of Tibeto-Nepali origin. It seems the machine made tufted carpets industry is drawing away a large part of the supplies on the plea of export, even though it has been reported that such units have not always kept their export commitment.

(b) The powerloom sector including the shoddy sector, has represented against the uneconomic size permitted to this sector of industry, and has asked for expansion. It has been claimed that there is shortage of spinning capacity in the industry.

(c) Organised woollen mills have represented that they are quite small - and have been kept that way - in relation to the cotton textile industry, and have therefore asked for stricter licensing in regard to the spinning and weaving of woollens, and mixed woollen blends, which they have urged, should not be allowed to the stronger cotton textile industry.

15.8.6 Taking into account the potential domestic and overseas demand for woollen goods, the Committee has come to the conclusion that there is need to allow controlled expansion of spindles capacity. The Committee feels that there is no case for delicensing of capacity in this industry, and that the IDR Act should be used to allow the controlled expansion of capacity in the following manner:-

(a) For some items, there should be a complete ban on capacity creation, and in fact, these items should be reserved for the decentralised sector. While the exact list could be decided after careful examination,

the items which on prima facie grounds, could be so reserved are carpet weaving, shawl making and barrack blankets.

(b) In order to make indigenous raw wool available to the decentralised sector for adequate production of the above items, no further expansion of capacity should be allowed even in export zones, for items like machine made tufted carpets. Existing large scale producers should also be asked to use a blend of imported and indigenous wool, and their export obligations should be carefully monitored.

(c) Some controlled increases in the capacity for spinning - in the shoddy sector in particular - should be allowed. This facility should be used to first allow public sector/co-operatives of weavers capacity for spun yarn, and also to bring up the existing uneconomic size small units to a more rational size*. As indicated earlier, licensing of capacity in this industry has to be undertaken cautiously, and after careful examination of the existing capacity and the emerging demand.

15.8.7 The Committee is of the view that the Textiles (Production by Powerlooms) Control Order, 1956 has so far only existed on the statute book. It has not been very effective and is not likely to be effective unless there is an effective enforcement machinery. For the cotton textile industry, it has been recommended that the Order should be enforced by the Textile Commissioner in the interest of the handloom sector. The Committee feels that for the woollen sector, similar monitoring should be enforced.

15.8.8 Steps have also to be taken to see that woollen industry is protected from encroachment by other textile units in its sphere of manufacture. The diversification facility allowed to the cotton textile industry under the IDR Act has, it appears, led to the entry, by the much larger and stronger cotton textile industry, into spheres of manufacture earlier preserved for the woollen industry. Under a notification of 18th July, 1970 issued under the IDR Act, the Central Government permitted all licensed or registered industrial undertakings free diversification facilities without licensing, provided the new article was not a restricted item and belonged to an allied line of manufacture. Later on, by a subsequent notification, issued in February, 1973, the multi-fibre policy was introduced. These notifications have given an opportunity to the comparatively bigger and financially more powerful cotton textile industry free entry into the area earmarked for the woollen industry under the IDR Act. This competition becomes unfair because the woollen industry had not in the past been allowed to expand. Under the present import policy, raw wool is under the OGL. The Committee suggests that the application of free, unrestrained diversification facility in the textile industry should be withdrawn, and the units in the cotton textile industry which are specifically licensed for manufacture of products covered by item 23(1) of the First Schedule to IDR Act, should not be allowed entry into areas specified for the woollen industry under item 23(3), to protect the weaker woollen industry.

15.8.9 Acrylic fibre, although a man-made fibre, is the nearest substitute for wool. Acrylic fibre has also been bracketed with wool even in the First Schedule to the Central Excise Act. Additionally, acrylic knitwear is made by woollen hosiery units in

*Shri L. C. Jain does not agree to the latter suggestion.

the decentralised sector. By all accounts, this fibre qualifies to be classified with "wool", and acrylic fibre should be reserved for use by the woollen industry, by classifying acrylic as an item falling under the category of "wool", and also by restricting the use of this item by the cotton textile industry.

15.8.10 The Industrial Policy Statement of 1977 has reserved woollen knitted cloth, woollen knitted vests, woollen knitted socks and woollen knitted scarves in the woollen industry for the small scale sector. This sector is employment oriented and about 80 per cent of the production from this sector is exported, earning a substantial amount of foreign exchange. It would be appropriate if the entire range of woollen and mixed knitwear is reserved for production in the small scale sector.

15.9 <u>Controls on textiles : An overview</u>

15.9.1 The formal aspect of control on textiles — apart from the substantive aspect — calls for special comment. Reference has been made to this problem in Chapter 3 on Statutory Sanction. The control over textiles provides an example of the complexity of the control law.

15.9.2 As indicated earlier, in para 15.4.3, there are a total of nine Control Orders — all issued or validated under the Essential Commodities Act of 1955 — on various aspects of the textile industry. The oldest and substantive control over the textile industry, the Cotton Textiles (Control) Order dates back to 1948. Over more than thirty years of its validity, the control exercised under this Order has been changed from time to time, through gazette notifications, but at no time has the full system of control been updated and brought out in a comprehensive manner, in one publication. Over the years, there have been more than a hundred notifications issued in this regard; and it becomes necessary, for anybody who wants to know the full control law, to go back chronologically, and wade through diverse notifications issued from time to time, to fathom the control system. Some of the notifications — pertaining to individual clauses of the Control Order — do indicate that the said notification is in full replacement of all previous notifications on that particular subject, but even in that regard, one has to go back, for some of the clauses, to notifications going back to 1955 for getting a fully authentic updated version of the control law.

15.9.3 Understandably, few people in the country understand in full the detailed law in this regard; and even though many parts of the control law may not be actively enforced at present, there exists a control framework which is perhaps being violated unwittingly almost daily by most people in the textile industry and trade, which is in theory punishable.

15.9.4 Reference therefore becomes necessary to the Office of the Textile Commissioner for interpretation of the control system, but even there, the knowledge vests with a number of different officials dealing with different aspects of the control system. The ICMF does maintain an updated version of control laws — for the benefit of its members — but this information is not "official", nor is it fully updated in every respect. In short, the control system in the matter of textiles is untidy and unsatisfactory.

15.9.5 There are many notifications which are dormant, in the sense that they are not invoked, but are still valid, even though they are totally irrelevant. This can only be

ascribed to "absentmindedness" on the part of the authorities. For example, the pricing of controlled cloth — before the new textile policy — was based on a pricing formula giving prices in relation to the counts of yarn and texture of cloth (reeds & picks per square inch) in respect of controlled varieties of cloth. The latest notification on the subject, running over more than 50 pages, is still valid even though it is totally irrelevant in the light of the present policy, which is to invite tenders for the supply of controlled varieties of cloth. The pricing formula just does not apply any longer. Yet it is valid nonetheless, never having been withdrawn.

15.9.6 There are other such examples. The consequence is an opportunity for graft. The law is so complex that everyone concerned with textiles finds it worthwhile to buy peace through petty gratification of the local authorities.

15.9.7 The Committee has attempted to bring out the complexity of the system, indeed the ridiculous nature of the control, by assiduously updating all control notifications pertaining to textiles. The updated extant control law, valid, of 31st March 1979, is given in the Appendix to the report. A perusal of the text would indicate how between the legal jargon and the maintenance of irrelevant provisions, the entire control system has become unintelligible to all but professional advisers.

15.9.8 On the diverse control orders that exist as today, the recommendations of the Committee on different aspects of the control are briefly summarised below:-

(i) Cotton Control Order, 1955

(a) Ceiling prices have not been effective in controlling prices of cotton. Support prices of cotton have also been ineffective. If realistic support prices are fixed, and a buffer stock of cotton is maintained by the CCI, clause 3 of the Control Order — on maximum/minimum prices — would become redundant.

(b) Regulation of stocks of cotton or kapas by clause 4 of the Order would also become unnecessary if an adequate buffer stock is maintained. The provision may, however remain until buffer stocks are built up.

(c) Maximum and minimum limits for purchase as per clause 5 would also fall into the same category as (b) above.

(d) The Textile Commissioner's power to direct manufacturers to sell cotton in excess of reasonable requirements, as per clause 6 would also fall into the same category.

(e) There are various detailed provisions regarding licences (of two types) to be issued to cotton traders, packing of cotton bales, regulation of distribution, etc. Some of these would become redundant — but may be covered under quality control, if cotton ginning & pressing factories are made co-operatives of cotton growers, and if the CCI can effectively control the market with buffer stock operations.

(ii) Cotton Textiles (Control) Order, 1948

(a) Powerlooms are required as per clause 12(3) to be registered - which is equivalent to licensing for this purpose - by the Textile Commissioner - the Textile Commissioner should be vested full powers of prosecution (like Income Tax Officers) to penalise, and to remove unauthorised powerlooms.

(b) The Textile Commissioner has powers as per clause 20 to issue directions to manufacturers regarding specifications and quantity of cloth and yarn to be produced. In regard to cloth, only standard specifications of construction (minimum reeds and picks) for different types of cloth should be specified. With the present system of controlled cloth production, no other control - except blanket reservations - is necessary. Certain stipulations would need to be made regarding minimum quantity and quality of yarn to be supplied to handlooms.

(c) Clause 21 empowers the Textile Commissioner to set out packing conditions for yarn and cloth and inter alia, the quantum of yarn to be packed in hanks. This has to remain.

(d) Under clause 20, the Textile Commissioner has powers to indicate the types or specifications of cloth or yarn, and the quantities thereof that may be produced by the mills. While quality control and ISI specifications can be separately laid down, this clause has no definite purpose except that it can be used for directing mills to produce types of yarn required by the handlooms, which cannot be a blanket directive in regard to counts.

(e) Clause 21A read with clause 22 empowers the Textile Commissioner to specify varieties of (controlled) cloth and the maximum prices of such varieties, to be packed from time to time. The controlled cloth obligation having been rescinded, the utility of these orders is now doubtful.

(f) Under clauses 22 and 24, the Textile Commissioner has powers to regulate and to insist on stamping of maximum prices at which cloth or yarn may be sold. Clauses 23 and 27 further clarify the price stamping regulations. These powers have been extended to State Governments also. The price stamping of non-controlled cloth is not serving any useful purpose and may be discontinued. Price stamping may continue only in respect of controlled varieties of cloth, sold at a subsidy, so that controlled varieties of cloth may be clearly distinguishable from other varieties of cloth.

(g) Under clause 25, stocks of cloth or yarn are regulated; and clause 30 empowers the Textile Commissioner to direct manufacturers or dealers to sell or deliver specified quantities of cloth or yarn to specified persons. The only control necessary in this context

is in respect of yarn, for which manufacturers should be directed to deliver certain minimum quantities of yarn to co-operatives of handlooms. For the rest the orders are no longer necessary.

(h) There are various clauses in regard to the use of sizing or filling material (Clauses 13 to 16), and the construction of cloth /Clause 22(1A)/.

(i) There is a lot of repetition of more or less the same or similar points under different clauses of the Order. All these clauses can be simplified and merged into one clause pertaining to each substantive matter. Many of the clauses of the Cotton Textiles (Control) Order are confusing and unnecessary and should be rescinded.

(iii) Textiles (Production by Powerlooms) Control Order, 1956

Control over powerlooms has to remain and in this connection the Textile Commissioner should be given powers of prosecution in the same manner as income tax officers. The Order should however be merged with the main Cotton Textile (Control) Order.

(iv) Textiles (Production by Knitting, Embroidery, Lace making and Printing Machines) Control Order, 1963

The Order prohibits the installation of machines for knitting, embroidery and lace making; and empowers the Textile Commissioner to grant registration certificates in respect of printing machines. The former is designed to protect the decentralised sector. The Order should be incorporated in the Cotton Textiles (Control) Order so that the entire body of controls on Textiles is brought together in one place.

(v) Textile Machinery (Production and Distribution) Control Order, 1962

The Order empowers the Textile Commissioner to regulate distribution of textile machinery to new units, and was originally devised to regulate the supply of equipment to new units which were experiencing difficulty in securing machinery. The order is unnecessary except in one particular direction. The sale of powerlooms should be brought within the ambit of control and covered under the Cotton Textiles (Control) Order, so that equipment manufacturers cannot sell looms to unauthorised powerlooms, and all sales of looms are registered with the Textile Commissioner and authorised by him in accordance with approved programmes of replacement or modernisation.

(vi) Art Silk Textiles (Production and Distribution) Control Order, 1962

The Order empowers the Textile Commissioner to regulate the installation of spindles and also the manufacture of art silk yarn and cloth (Clause 3); stocks of art silk, prices of art silk yarn and distribution of art silk yarn (Clauses 4 and 6). The Order has been recently relaxed

permitting manufacture of 100 per cent polyester and acrylic yarn, and the use of such yarn in the warp of cloth. The objective could be better achieved through the use of fiscal policy and through import restrictions. The supply of blended yarn to the handloom sector should be stipulated at a minimum percentage of the output. Acrylic yarn should be reserved for the woollen industry. A separate control order does not seem to be necessary, and the required provisions should be merged with the Cotton Textiles (Control) Order so that the relevant control law is made simple and comprehensive in one single control order.

(vii) Cotton Textiles (Control of Movement) Order, 1948

The Order permits the Textile Commissioner to restrict movement of cloth or yarn. The Order does not seem to serve any useful purpose as of today, and should be rescinded.

(viii) Cotton Textiles (Production by Handloom) Control Order, 1956

The Order provides for the registration of each handloom so that information can be collected on the number of handlooms. Since 1962, the Order has been kept in abeyance, and the information is being obtained through the State Governments. It seems desirable to decentralise the power and to authorise the State Governments to register handlooms. The Order should be rescinded.

(ix) Woollen Textiles (Production and Distribution) Control Order, 1962

The Order deals with the installation of woollen machinery only with the permission of the Textile Commissioner (Clause 3); empowers the Textile Commissioner to give directions regarding specifications and quantity of wool tops, woollen yarn or woollen cloth to be produced (Clause 3A); empowers the Textile Commissioner to regulate prices (Clause 4); and empowers the Textile Commissioner to give directions for processing and sale of any variety of woollen yarn (Clause 6). The provisions of the control order have been entirely ineffective. Apart from licensing of capacity which is necessary in order to regulate the expansion of the mill sector and to safeguard the interests of the decentralised sector, the other provisions of the Order seem to be unnecessary, and should be rescinded.

15.9.9 With the modifications suggested, the Committee feels that the office of the Textile Commissioner would become an unnecessary appendage and should be wound up.* Instead, there should be a Textiles Development Board, in charge of the co-ordinated development and regulation of the entire textile industry. Different parts of this body should deal with khadi, handlooms, powerlooms and the mill sector. This body should have the required powers of prosecution for controlling the unauthorised growth of powerlooms or in respect of any other violation of Government policy and Government orders.

* Dr. A.K. Ghosh feels that this is a matter of administrative reform.

15.10 Subsidies on textiles

15.10.1 The following subsidies have been available to the textile industry:-

	1977-78 (Actuals)	1978-79 (RE)	1979-80 (BE)
	(Rs. crores)		
(i) Subsidy on imported cotton	44.00	2.00	15.00
(ii) Subsidy on controlled cloth	16.00	47.00	52.00
(iii) Subsidy on handloom	7.90	11.00	22.00
(iv) Subsidy on khadi	9.47	10.00	15.00
Total :	77.37	70.00	104.00

15.10.2 It would be seen from the above that the major part of the subsidy given by the Centre has been on imported cotton and on controlled cloth, before the introduction of the present system of a cross-subsidy on Janata cloth to be paid for out of an additional excise of 10 per cent on all wearables including synthetic and woollen cloth. The magnitude of the subsidy on handloom and on khadi has been of a second order.

15.10.3 The new scheme for Janata cloth would hereafter do away with erstwhile subsidy on controlled cloth. This is a step in the right direction.

15.10.4 The subsidy on imported cotton has arisen for reasons already indicated earlier, and can be traced to the essentially short term policy followed by Government in regard to buffer stocking of raw cotton. The refusal to grant credit for stock holding in a good season in 1974-75 led to a crash in prices and to a decline in cotton area and output the next year and also in the succeeding years. The continued shortages of cotton have thereafter compelled Government to acquire imported cotton at high prices in 1977-78. The subsidy, as per the actuals for 1977-78, is as high as Rs.77 crores. The Committee has already noted how an opportunity to build up a buffer stock of raw cotton has been missed this year, that is in 1978-79 cotton year, when prices crashed after a bumper crop of raw cotton, recourse being taken to export of even staple varieties of cotton - and not merely the unspinnable Bengal Deshi cotton which we have been traditionally exporting - rather than to the build-up of a buffer stock. We should also find suitable uses for spinning very short staple cotton for weaving into coarser varieties of cloth.

15.10.5 Although the State Governments give some additional marginal subsidies on handloom and khadi, the total magnitude of these subsidies is quite small in relation to other larger subsidies available to the mill sector. The Committee has already noted the subsidy element in the soft loans given to the mill industry for modernisation under the Soft Loan Scheme of the IDBI. The Committee would only wish to reiterate its view that there is no justification for subsidisation of capital intensity; on the other hand there is every justification for subsidising handloom and khadi in the interest of greater employment, and that these subsidies should be buttressed and indeed enhanced. The Committee has already noted that the subsidy on imported cotton would not be a justifiable payment in the future, and that after a buffer stock of cotton has been built up, the import of cotton can be left to the mills who should bear the higher prices of imported cotton. The interest cost of carryover stocks of cotton with the CCI, to be used as a buffer, could be met out of a cess on raw cotton, the cess being used to also pay for a nationally sponsored programme of pest control and spraying of the cotton crop.

Chapter 16

JUTE

16.1 Introduction

16.1.1 The jute industry has an important role in the national economy, and a vital role in the economy of the eastern region. The production of raw jute and jute goods and their marketing provide employment for nearly one-fourth of the working population in eastern India. Until 1966-67, the jute industry was the single largest foreign exchange earner. Jute ranks second only to cotton in world consumption of fibres.

16.1.2 In 1927 there were more than 50,000 looms in undivided India, all of them located in and around Calcutta, even though most of the jute was grown in East Bengal. In 1949, the number of looms in India had gone up to nearly 66,000 and in 1966 there were more than 77,000 looms in the country even though meanwhile, a new jute mill industry had grown in East Pakistan (now Bangladesh).

16.1.3 Due to various factors production has shown a declining trend after 1966. In 1978, the number of looms had declined to 44,200. Of this number, little more than 50 per cent were for hessian, around 35 per cent for sacking and the rest in the form of broad looms for carpet backing, and other types of looms. The total number of workers employed in the jute industry is currently about 260,000 of whom about 225,000 are employed in West Bengal. The estimated value of output of the industry is of the order of Rs.500 crores.

16.2 Marketing of raw jute

16.2.1 Jute is grown in India and Bangladesh on small farms. The main jute growing States are West Bengal, Bihar, Assam, Orissa, Tripura and Uttar Pradesh. Andhra Pradesh produces Mesta - an inferior variety of jute. Processing raw jute is a dirty, labour intensive job performed under unhygienic conditions, rivalled only by coir retting.

16.2.2 The marketing of raw jute is carried on at three levels —

(a) at the village, including the village 'hat' which is the primary market;

(b) at the 'mandi' level located mostly in important road and rail heads, where kutcha baling facilities are also available, generally known as secondary markets; and

(c) terminal markets at which most of the produce arrives for final distribution either to local manufacturers or to pucca balers, the latter for jute meant for export.

16.2.3 In the primary market, the sale of jute is usually in the form of unassorted jute. In the secondary markets jute is assorted into different grades and then baled. These markets are usually located at places where communication facilities are good and regular supplies of jute are assured. For most of the jute producers in India the terminal market is Calcutta.

16.2.4 It is estimated that about 60 per cent of the jute is sold by the growers straight from the farms; about 32 per cent in the "hats" or primary markets and only about 8 per cent in the secondary markets. Thus almost the entire quantity of jute is sold without reaching organised markets.

16.2.5 The jute grower normally sells his jute to mill agents and wandering dealers known as "farias", or commission agents of the mills who either buy directly or finance the farias. A large number of jute mills have established their own agencies at various secondary markets. It is widely alleged that these agencies are usually "benamis" of the mill-owners or top executives of the mills, and they control the buying in the village through the 'farias'. These agencies buy the jute on behalf of the mills at low prices and later sell the same jute to the mills at higher prices. One of the sources of black money generation in the Eastern Region is widely stated to be the procurement of raw jute.

16.2.6 There are many varieties of raw jute, as many as 25 grades between jute and mesta, but now ISI grades have been laid down, and the number of grades reduced.

16.2.7 The procedure for the sale of jute may be described in a little more detail because a great deal of untaxed money is generated through the purchase and sale of raw jute, and the cultivator is deprived of a fair share of the price which is ultimately paid by the mills. The grade of jute in unassorted lots is determined by "eye-assessment", and the price is negotiated on the basis of this assessment. It has emerged during the evidence collected by the Committee, and in studies conducted by experts on its behalf that by and large the grower receives only bottom grade price for the unassorted jute. The correct assortment is done later at the time of baling, but the benefit of improvement in quality is not passed on to the grower, and the high premium prevailing for the superior grades of jute accrues to the balers and the mill agencies. In addition to being paid only the bottom grade prices for sale of unassorted jute, the grower is put to loss in various other ways. The moisture is estimated at a higher percentage; and the weight is not correctly indicated, so that various deductions are made in cash and in kind to the disadvantage of the jute grower. Another feature of jute purchase - which has been characteristic of many other crops also - has been the system of 'dadan', or the hypothecation of raw jute well ahead of its harvesting. In such event, the cultivator gets only a fraction of the market price of jute.

16.3 Raw jute availability and prices

16.3.1 Reference has already been made in Chapter 2 on attempts at controlling the jute acreage even prior to the institution of war time controls. The total area under jute production in undivided India, before partitition, was around 24 lakh acres with a total production of 80 lakh bales. The area under cultivation and the crop has varied significantly from time to time. In 1940-41, for instance, the area under jute had increased to as much as 57 lakh acres with a total crop of 131 lakh bales. At the time of Partition in 1947, the area under jute in India was only 6. 5 lakh acres with a total crop of 16.6 lakh bales, while almost all the jute mills were in India, and the industry's consumption of raw jute was of the order of 62 lakh bales.

16.3.2 By 1951-52, India was able to increase the area under jute cultivation to 19. 51 lakh acres with an output of 46. 78 lakh bales. Jute production reached an all

time high in 1961-62 when the area under jute and mesta was 33.15 lakh acres with a total production of 82.36 lakh bales. The industry's consumption of raw jute reached a record figure of 81.44 lakh bales in 1964-65. Since then there has been a decline in the consumption of raw jute.

16.3.3 The major problem of the jute industry is the instability of raw jute prices and the wide fluctuations in the price of jute goods as a result. The industry is export oriented, and the fluctuations in prices as also the uncertainty about availability of jute goods have hastened the emergence of substitutes. Apart from the violent fluctuations in jute goods prices, the importers are also not very sure about the availability of the material or its timely arrival. These two factors more than any other have helped synthetic substitutes to displace jute products from a sizeable share of the market.

16.3.4 The instability of raw jute production and prices arises from two factors —

(a) Vagaries of the weather. Even if the weather is favourable at the time of sowing, subsequent dry weather could affect the size of the crop and its quality.

(b) Prices prevailing in the previous season, particularly at the time of sowing. Since jute growing is a labour intensive process, both the absolute level of jute prices in the previous season, and price parity vis-a-vis paddy, which is the common competing crop for jute, determine the area under jute.

16.3.5 The following figures of yield rate of raw jute per hectare (excluding mesta production) for a few selected years indicate the impact of the fluctuations of weather:

Table I

Average Yield of raw jute per hectare

(in bales of 180 kgs.)

1968-69	5.6
1969-70	7.4
....	...
1973-74	7.8
1974-75	5.7

Source: Basic Data on Jute, published by the Jute Manufactures Development Council (headed by Jute Commissioner), March 1978.

16.3.6 The increase in the yield rate in 1975-76 was by as much as 33 per cent; correspondingly, the decline in the yield rate in 1974-75 was 27 per cent.

16.3.7 Equally, the area under jute has been fluctuating within wide limits. In 1968-69, the area under jute declined by as much as 40 per cent as compared to the previous year. The next year, the area increased by 46 per cent. The changes in acreage

have been the result of the widely fluctuating prices, as the following table would bring out:—

Table II

Relationship between jute prices and jute acreage

Year	Price (Rs. /maund)	Acreage(lakh acres)
1938-39	7.40	-
1939-40	-	31.6
1939-40	12.50	-
1940-41	-	56.7
1940-41	8.30	-
1941-42	-	21.6

No statistical correlation coefficients are necessary to demonstrate the cyclical pattern of jute prices and acreage, brought out by the above data. The trend of jute prices and acreage has generally followed the above pattern.

16.3.8 Prices also vary significantly over the year, the price accrual to the jute grower being at the lower price ruling at the commencement of the season. The following figures of the maximum, minimum and average prices of Assam Bottom (W5) variety of raw jute f.o.r. Calcutta, in a few selected years are testimony to this characteristic feature of jute prices.

Table III

Range of prices of Assam Bottom (W5) variety of raw jute f.o.r. Calcutta

(Rs. per quintal)

	Maximum	Minimum	Average
1961-62	147.40	72.73	88.60
1964-65	132.66	84.42	104.90
1966-67	195.64	117.92	143.84
1968-69	210.38	134.00	183.26
1969-70	198.32	112.56	142.31
1974-75	206.36	147.40	175.83
1976-77	240.00	180.00	200.47

Source: Basic Statistics on Jute, op. cit., and Jute Commissioner (Data supplied to Committee).

16.3.9 It would be seen that the fluctuations of raw jute prices, within the year, have been quite considerable. For instance, in 1961-62, the maximum price was more than double the minimum. Also, in general, minimum prices - which govern the prices received by the grower - are quite low in relation even to average prices.

16.3.10 In the past, the average output for a period of five years has been around 300 lakh bales - or 60 lakh bales per annum - against an average consumption of 67 lakh bales. It is therefore, necessary, first, to increase raw jute output over a period, which requires a stable and a remunerative price for the grower; and secondly, to build up adequate stocks during years of plenty so that these stocks may be used during lean years, when the weather conditions are not favourable.

16.3.11 A scheme of "support prices" for jute has been in operation on paper for many years. But even in the lean years, it has been argued on behalf of the growers that they do not get the benefit of the increased price for their produce, while they get totally unremunerative prices during years of bumper harvest.

16.4 Other problems of the jute industry

16.4.1 The jute industry as a whole is far from healthy, and the management of a number of mills has had to be taken over under the IDR Act to protect employment. Many other jute mills not yet taken over are also in a bad shape and have problems of working capital. In part, the industry has brought difficulties on itself by not modernising equipment. The problem has been compounded by Government levying an export duty whenever export prices have been high, the export duty remaining unchanged when prices abroad have slumped. There is widespread allegation of the siphoning off of the profits of the jute industry through benami raw jute purchase operations, while the fortunes of the corporate mill sector have suffered a decline. The Committee has been given this information in confidence even by some top executives of the jute industry. According to the analysis of the balance sheets of a sample of 44 jute companies attempted by the Reserve Bank of India, over 1965-66 to 1973-74, the average profit after tax as a percentage of net worth was (-) 0.8 per cent 1/.

16.4.2 A major problem of many mills in the industry today is that of inadequacy of working capital funds for the purchase of raw jute and for the maintenance of the mills. Of late, the management of a number of jute mills has had to be taken over by the Government of India, in the interest of employment, and a number of others are either sick or nearly sick.

16.4.3 The levy of export duties on jute goods - though intended to prevent a deterioration in the terms of trade - has also compounded the difficulties of the jute industry because, once levied, they have tended to be sticky. Data relating to the years after the devaluation of the rupee in September 1949 and again in June 1966, would indicate

---

1/ Reserve Bank of India Bulletin:
Sept. 1972 for figures for 1965-66 to 1969-70
Sept. 1975 for figures for 1970-71 to 1973-74
Sept. 1977 for figures for 1974-75 to 1975-76

the problem. The stickiness of the export duty on jute goods, once levied, is indicated below:—

Table IV

"Stickness" of export duties

		Export duty on hessian	(Rs./tonne)		Export duty on hessian	on sacking
From	29.9.49	350	From	6.6.66	900	600
"	21.10.50	750	"	26.5.67	750	450
"	20.11.50	1500	"	7.2.68	500	250
"	19.2.52	750	"	1.3.69	200	150
"	7.5.52	275	"	13.12.71	600	150
"	15.9.53	120	"	28.8.73	200	Nil
				24.3.74	600	150
"	2.8.55	Nil	"	4.6.75	Nil	150
				22.4.76	Nil	Nil

16.4.4 The Committee has found a positive relationship between the stability of prices of raw jute and jute goods and a secular growth of jute goods export. For example, the period between around 1961 and 1965 was marked by relative stability of raw jute prices and availability, and steady growth of Indian exports of jute goods, from 760,000 tonnes in 1961 to 929,000 tonnes in 1965, India's share in total world exports being around 79 to 80 per cent.

16.5 Controls on the jute industry

16.5.1 The jute industry has from time to time been subjected to various controls, both statutory and non-statutory, and also voluntary regulations by the industry itself. Control over the installation of additional capacity and the level of production in the jute industry has been exercised by the Indian Jute Mills Association since 1939 through an arrangement known as the Working Time Agreement. This Agreement remained virtually unchanged from 1939 to 1965. It covered all the members of the Indian Jute Mills Association who accounted for 96 per cent of the jute looms installed in India. On the plea of matching production to raw material availability, this Agreement was used by the industry to curtail production when there was an oversupply of jute goods in the market, by sealing a certain percentage of the looms with the mills. This also helped in depressing the prices of raw jute to the disadvantage of the grower. The Agreement, like any other control, also protected the inefficient units from the full effects of competition, and at the same time prevented the more efficient mills from expanding and availing themselves of economies of scale. The Agreement has limited the availability of jute yarn for manufacture of jute goods of special types, by pegging the yarn capacity to the level of the mills' capacity in 1939.

16.5.2 The Working Time Agreement continued to be in force even after the Industries (Development and Regulation) Act came into force in 1952. It was ultimately revoked in 1965 as a result of a strong warning administered by the Government that this Agreement was a restrictive trade practice, and that unless the industry voluntarily revoked the Agreement, Government could be constrained to take action against the Association.

16.6 Statutary controls

16.6.1 During the World War II, the export of jute goods was subjected to rigid control. In September 1949, consequent on the devaluation of the Indian rupee, various additional control measures were imposed. These included the banning of 'futures' in jute goods and a fixation of ceiling prices for raw jute and jute goods under the Jute

Goods (Control) Ordinance of 1949. A Jute Controller was appointed under this Ordinance and was vested with the responsibility for regulation, maintenance and increase of production and supply of jute goods. He was also given powers to requisition jute goods to provide equitable distribution.

16.6.2 With the increased availability of raw jute due to the increased acreage under cultivation, and the increased production of jute goods from 837,000 tonnes to 960,000 tonnes, the prices of raw jute and jute goods were decontrolled in 1951, but export was still subject to control, until September 1958, when it was decontrolled.

16.6.3 In 1954, the Government set up the Jute Enquiry Commission to make in-depth study of the problems of the jute industry which was then the single largest earner of foreign exchange and therefore was deemed to be vital to the national economy. Among other recommendations, the Commission recommended the appointment of a Jute Commissioner to function as an Adviser to the Government on all problems relating to jute and jute goods, and to act as a link between the industry and the Government. A Jute Commissioner was appointed in April 1958. Till then the Joint Chief Controller of Imports and Exports, Calcutta also functioned as the Jute Controller. At the time of his appointment, the Jute Commmissioner did not enjoy any statutory powers except to the limited extent provided in the Jute Textiles (Control) Order, 1956.

16.6.4 The extant controls on raw jute and the jute industry are briefly recounted below.

Jute (Licensing and Control) Order, 1961

16.6.5 This Order was issued in March 1961 under the Essential Commodities Act, 1955, to meet the situation arising out of a short jute crop in 1960-61, and the consequent spiralling of raw jute prices and jute goods prices at a time when the overseas demand had slackened. Voluntary regulation by the industry did not help in containing the rise in prices. With a view to match the production of jute goods to fibre availability, the industry suggested two block closures for one week at a time and the Government had to agree reluctantly.

16.6.6 The Jute (Licensing and Control) Order of 1961 confers the following powers to the administrative authorities, in this case, the Jute Commissioner:—

(a) to license dealers in raw jute and jute textiles;

(b) to fix maximum and minimum prices of raw jute and jute textiles;

(c) to control the production of jute textiles;

(d) to regulate purchases by jute mills and stock-holding of raw jute; and

(e) to requisition (if and when necessary) stocks of raw jute and jute textiles.

16.6.7 One of the major provisions of the Jute (Licensing and Control) Order empowers the Jute Commissioner to fix minimum or maximum prices or both in respect of raw jute and jute textiles. This clause was introduced in December 1963. The original Order of 1961 did not contain such a provision for fixing prices, on the ground that the price of raw jute or jute textiles should not be statutorily fixed because it is an export industry. In December 1963 it was decided that an enabling provision should be written into the Control Order to provide for fixation of minimum and maximum prices for both raw jute and jute textiles. From the beginning of the 1972-73 season, minimum prices for the purchase and sale of raw jute have been fixed on a statutory basis by a notification issued by the Jute Commissioner. The prices are notified by the Jute Commissioner for every year. From all available evidence, the control over prices has not been really effective; the support prices announced from time to time have not assured the grower of raw jute from being cheated by the trader, and the maximum prices have not operated in times of jute scarcity. Thus, the Order has not succeeded in providing price stability for raw jute.

16.6.8 A lacuna in the present system is that while the minimum statutory price is now fixed for jute in the outstation markets, no such statutory price is fixed for sales or purchases in Calcutta which is the ultimate consuming centre. This is a serious lacuna and gives enormous scope to the mills to depress the price of raw jute in the Calcutta market and consequently in the up-country areas.

16.6.9 Statutory prices for jute textiles were fixed for the first time in October 1968 in respect of the maximum ex-factory selling price of B. Twills. This Order was operative until April 1970, and again, during November-December 1971, when there was price control in respect of sales to the DGS&D.

16.6.10 In October 1968, provision was made under the Order to meet the requirements of the DGS&D. The maximum price of B. Twills had been fixed under the Control Order, and there was a natural tendency to curtail production of this item. Mills were not producing adequate quantities of B.Twills required by the DGS&D, and were using the available raw jute only for production of such types of goods as were giving them a higher return. The Order was amended to empower the Jute Commissioner to direct any or all jute manufacturers to produce such categories or specifications of jute textiles as were to be specified. The Jute Commissioner was also authorised to prescribe the maximum or minimum quantities of jute textiles which each such manufacturer was to produce during any period to be specified. In November - December 1971, the Jute Commissioner issued directives to the mills to produce a specified minimum quantity of B.Twills for sale to the DGS&D at the price notified by the Government for meeting the urgent packaging requirements of the Food Corporation of India and other Government agencies including the State Governments. Though the jute industry has had its share of speculative upsurges, the Control Order referred to above is yet another instance of peremptory Government intervention without adequate concern of the long term problems of industry.

16.6.11 The Order empowers the Jute Commissioner to regulate stocks of raw jute with the mills. The original clause was devised to meet a situation of a glut of raw jute. There was bumper crop in 1961-62. There was a temporary surplus of raw jute and prices were sagging below the support level. Mills were, therefore, directed to hold a certain minimum quantity in stock and also purchase a minimum quantity during a speci-

fied period. The Order was amended in May 1966 to deal with a different situation of shortage of raw jute. In view of the short crop, increasing demand for jute textiles and other factors, there was a scramble for cornering the available stocks of raw jute by the more affluent mills. It became necessary therefore to fix the maximum quantity which each manufacturer could hold, and the Order also indicated the maximum quantity a manufacturer could buy in a specified period. In order to compel the mills to lift the stocks held by the State Trading Corporation and the Jute Goods Buffer Stock Association, it was also provided that Jute Commissioner could direct a mill to buy from a specified person or agency.

16.6.12 Clause 10 of the Order empowers the Jute Commissioner to requisition stocks of raw jute or jute textiles held by the trade for purposes of equitable distribution. Under this clause, the Jute Commissioner may require any person holding stocks of raw jute or jute textiles to sell the whole or a specified part of the stock on such terms and conditions and to such parties as may be specified in the Order. The use of this power was made for the first time in 1978, as noted later.

16.6.13 Clauses 10A and 10B relate to the movement of jute and jute textiles and empower the Jute Commissioner to issue directions to carriers.

16.6.14 The Jute Commissioner has recently notified that with effect from the 15th March 1978 - later enforced from 1st May 1978 - the scheme of licensing will come into force in respect of raw jute trade. The scheme of licensing has been made compulsory for all persons who carry on business in (a) kutcha or pucca baling of raw jute (b) kutcha or pucca baled raw jute, involving in either case their purchase, sale or storage for purpose of sale. At present, there are approximately 3500 "traders" in raw jute, and they are required to send periodic returns in regard to their stocks of raw jute. The Committee is constrained to note that these returns are not tabulated because the Jute Commissioner has not reportedly been given any staff for the purpose. The Committee would later make separate recommendations in regard to raw jute but the Committee feels that collection of data by Government, under various Orders, without any attempt to tabulate such data, is symptomatic of a general malaise, namely, the tendency to issue Control Orders without much pre-planning as to the manner of implementation of the controls.

16.6.15 The preceding paragraphs (16.6.5 to 16.6.14) indicate the major provisions of the Jute (Licensing and Control) Order, 1961. It would easily be seen that the powers taken by the Government under the above Control Order are comprehensive - indeed, verging on the draconian - and yet the exercise of these powers has failed to solve the problems of either the growers of raw jute or of the jute mill industry. The reasons and the possible alternatives would be discussed later, after a quick review of two other controls on the jute industry.

16.6.16 Like many other industries, the jute industry is subject to licensing control under the Industries (Development & Regulation) Act, the creation of additional spindleage or loomage being subject to approval under the IDR Act.

16.6.17 The Jute Textile (Control) Order, 1956 was issued on the 15th February 1956, under the Essential Commodities Act of 1955. The purpose of this Order was to regulate by the grant of licences for the manufacture of jute textiles, twine and rope in

factories which are not covered by the IDR Act. This Order has been rarely used in the last 15 years except for purposes of licensing factories using manila hemp or sisal for rope making although they are outside the scope of the term 'jute textiles' unless they are used in blend with jute.

16.6.18 The number of looms in the Jute industry is adequate. No looms need be licensed except for purposes of specialities or for diversification. There appears, however, to exist some need to increase the spinning capacity, particularly for special varieties of yarn, as this has been a limiting factor in the industry. Various efforts were made during the 1960s to increase the spinning capacity and even inducements were offered but not much progress was made. Expansion in the spinning capacity should be for the manufacture of finer types of yarn required for specialities and diversified products.

16.9.19 While raw jute was orginally included as an essential commodity in the Essential Commodities Act, 1955, 'jute textiles' was not included. It was by issue of an Order under Section 2 (xi) of the Essential Commodities Act, 1955 that 'jute textiles' was brought within the scope of the Essential Commodities Act.

16.6.20 Reference has already been made to the various steps taken under the Jute (Licensing and Control) Order of 1961 to bring under control the prices of raw jute and the production and prices of jute goods.

Control over Import & Export

16.6.21 All imports and exports of raw jute are canalised through the Jute Corporation of India.

16.6.22 Jute goods are subject to provisions of the Export (Quality Control & Inspection) Act of 1963. This is a general provision, in the interest of maintaining the quality of exports. In this connection, the porblem of pre-shipment inspection of goods has been briefly discussed in Chapter 8 on Import and Export Control.

Forward Contracts (Regulation) Act

16.6.23 The East India Jute and Hessian and Exchange Ltd., Calcutta has been recognised under Section 6 of the Forward Contracts (Regulation) Act for regulation of futures trading in jute and jute goods. In the case of jute goods forward trading is normally carried on with the help of both NTSD (Non Transferable Specific Delivery) Contracts and TSD contracts. There is a futures market only for sackings now, as futures transactions have been suspended in the case of raw jute and hessian for quite some time.

16.6.24 It is contended by the trade that suspension of futures trading has adversely disrupted the free market operations. Futures trading may help stabilise the price only if the market mechanism is well developed and there also exists good information system, and forward trading is used for 'hedging' so that the possible loss from buying in the ready market or selling in the futures is offset by a gain from hedging in the opposite market. However, in India, owing to the imperfections in the market and the financial weakness of the raw jute growers, forward trading in jute goods is likely to lead only to increased speculation, and is not recommended.

Registration of Export Contracts

16.6.25 • The registration of export contracts is non-statutory and , therefore, entirely optional to the exporters of jute goods. Under this system, all export contracts are submitted to a Committee which consists of the Jute Commissioner as the Chairman, a representative each of the Customs and the Reserve Bank of India as members and the Deputy Jute Commissioner as Secretary. All export contracts are scrutinised by this Committee, and if they are found acceptable from the point of view of the prevailing market prices and future trends of prices, a certificate is issued after registering the contract. Once a certificate is issued, the shipment is not ordinarily subjected to further scrutiny by the Customs from the point of view of under-invoicing etc.

16.6.26 The Committee for registration of export contracts was set up in December 1962 in the wake of serious complaints from the trade, industry and overseas buyers of jute goods that a large number of shipments were held up at the point of export by the Customs on the ground that the prices or real value entered in the respective shipping bills were either not correct or questionable. Having regard to the complaints from the overseas buyers regarding delays and missed shipments, it was decided to follow the procedure indicated above. Once a contract was registered by the Committee there was to be no further check by the Customs. As it was not intended to add further restrictions to export control as it then existed, it was decided that registration should remain optional and not formally brought within the ambit of export control. Even though registration is optional, almost all contracts are registered with the Committee, and on an average, about 700,000 to 800,000 contracts are registered every year. There has been no complaint from the industry in regard to the working of the registration scheme. Though this is an informal arrangement, it would appear to be in the interest of the industry and the Government to continue the scheme which has worked without any complaint for over 15 years now.

16.7 Price stabilisation, buffer stocking and the role of the Jute Corporation

16.7.1 The need for giving the grower of raw jute a reasonable price in the interest of maintaining jute production has been accepted on all sides. The need for stabilisation of raw jute prices has been seen earlier. Before going into the mechanics for price stabilisation, the criteria for determining a reasonable price for raw jute may be briefly examined first.

16.7.2 The criteria for fixing the minimum price for jute have been discussed from time to time. The Floud Commission which examined this question in 1938-40 recommended that raw jute prices should be based on a normal parity between jute and paddy prices. The Jute Enquiry Commission of 1954, however, was of the view that it would not be proper to fix a minimum price for raw jute because statutory price control would be undesirable for an industry which sold more than 80 per cent of its production in overseas markets, and suggested that the fair price for jute should be worked on the basis of parity between the prices of raw jute and jute goods. The Jute Enquiry Committee of 1957 considered this question in some depth. The Committee was of the view that the main factors which had to be taken into account in the fixation of a minimum price for raw jute were (a) a reasonable return to the cultivator; (b) a normal parity between jute and paddy prices and (c) a fair relationship between the prices of raw jute and jute goods.

16.7.3 The Jute Enquiry Committee of 1957 suggested various methods for supporting minimum prices. These were (i) buffer stock operations, (ii) purchases by a

co-operative marketing board or a marketing association, and (iii) laying down a buying programme for the mills so that specified quantities are bought by them according to a fixed time table.

16.7.4 The Committee's recommendations were however not given effect, and although a minimum support price was announced from the 1961-62 season, the minimum prices were not statutorily notified until the 1972-73 season. It may be recalled in this connection that powers were taken as far back as 1961, under the Jute (Licensing and Control) Order, 1961 for the Jute Commissioner to statutorily fix the prices of different varieties of raw jute.

16.7.5 During 1960-61 the jute crop was only 51.53 lakh bales and price of raw jute shot up to unprecedented levels. The Indian Jute Mills Association which had been paying lip service to the concept of an economic return to the grower offered to undertake buffer stock operations in addition to regulation of consumption of jute by mills under its own Working Time Agreement. The Jute Goods Buffer Stock Association was formed in January 1962. The primary object of the Association was to acquire and maintain a buffer stock of jute with a view to preserving market stability and preventing unhealthy price fluctuations.

16.7.6 The Association was, however, more interested in benefiting its own members than in assuring a remunerative price to the growers. Its operations were sporadic and minimal. The intention was to support the minimum price of Rs.30 per maund, but by and large the prices ruled below the minimum support level during the years 1962 and 1963. In order to maintain the price support, the State Trading Corporation was also asked by the Government to enter the market and make purchases in areas where the prices sagged below the minimum level. The operations of the State Trading Corporation were limited and the combined efforts of both the State Trading Corporation and the Jute Buffer Stock Association were essentially marginal price support operations, and no efforts were made to build up a buffer stock with a view to stabilise prices.

16.7.7 As to what the level of support price of raw jute should be is a matter for separate study. It has been noted that India's export of jute goods were the highest upto 1965. This was also a period - between 1960 and 1965 - when raw jute prices were generally stable. In short, stability of prices rather than depressed prices, is likely to create a sustained foreign demand for jute goods. This implies that in fixing a reasonable price for jute, one should take note of the cost of jute cultivation, and the parity between jute and paddy prices.

Jute Corporation of India

16.7.8 The failure of the joint operations by both the Jute Buffer Stock Association and the State Trading Corporation to make an impact on prices when the market was sagging, and the need for stabilising price of raw jute and jute goods, led to consideration of an agency for supporting the price and creating a buffer stock of raw jute. The FAO Study Group on Jute, Kenaf and Allied Fibres had also recommended the creation of a buffer stock of jute. It was also emphasised in a Commodity Bulletin 2/ issued by the FAO on the "Impact of Synthetics on Jute and Allied Fibres" that the fears about the long

2/ Bulletin Series No. 46 on "Impact of Synthetics on Jute and Allied Fibres" issued by FAO, 1969.

term future availability of jute and jute goods and the inconveniences of short term fluctuations in supplies and prices have led jute users to welcome the development of synthetic substitutes, free from these drawbacks. These considerations led Government to set up an organisation exclusively for price support operations and for building up a buffer stock of jute for imparting stability to jute and jute goods prices. The operation was conceived as a price stabilisation measure. This was the genesis of the Jute Corporation of India.

16.7.9 The Jute Corporation of India was incorporated in April 1971 and was inaugurated in September 1971. It was set up with the main object of ensuring minimum support price to the jute growers and establishing raw jute prices at reasonable levels through import and export of raw jute and buffer stock operations. The Jute Corporation was also to ensure a better price for the grower by eliminating the multiple tiers of intermediaries operating in the jute market. The Corporation was to buy jute directly from the jute growers and build up its relationship with them directly.

16.7.10 The other objects as included in the Memorandum and Articles of Association of the Corporation 3/ were –

> "to generally carry on business as exporters and importers of jute and mesta and exporters of jute goods;
>
> to undertake processing of jute and mesta and manufacture of jute goods;
>
> to undertake export of jute goods;
>
> to support, protect, maintain, increase and promote export of jute goods by such methods as may be necessary or expedient including market studies, sending out trade missions, opening foreign offices etc.,"

16.7.11 Ever since it came into being, the Corporation has only been concerning itself with price support operations and those too on a very modest scale, although lately it is being asked to expand its activities. The Corporation has been working under some constraints right from the beginning. Adequate financial support has not been available for extensive operations for purchase of jute from the primary markets. It has also been dragging its feet in establishing the necessary infrastructure for the activities expected of it. Instead of taking aggressive steps to establish itself as the trend setter, it has allowed itself to play second fiddle to the more resourceful mill agencies and traders. The Corporation has, in fact, depended on the same 'faria' who has been treditionally buying raw jute from the grower. The Government also cannot escape the responsibility for the failure of the Jute Corporation in its primary function, in terms of the instructions issued to it, and the limitations placed on its functioning from time to time.

16.7.12 The Corporation has been operating side by side with the private trade. The traders and mill agencies are more resourceful and have adequate finance. They have scant regard for the statutory minimum prices and have arrangements with the middlemen

3/ Memorandum and Articles of Association of the Jute Corporation of India Ltd.

and commission agents to buy jute at lower than minimum prices. The standard practice is to advance funds and get the jute crop hypothecated well ahead of the harvest. Placed as it is, the Jute Corporation has never been , and cannot be expected to be able to regulate the price and availability of raw jute.

16.7.13 The Parliamentary Committee on Public Undertakings (COPU) has recently looked into the functioning of the Jute Corporation and related problems. 4/. The Committee's task is therefore made somewhat easier. The actual operations of the Jute Corporation, the latest position, and the Committee's recommendations on this subject are briefly indicated in the following paragraphs.

16.7.14 The Corporation has established about 100 centres for purchases and is also buying from 166 co-operatives in addition to some private agencies. The quantity of jute purchased by the Corporation as a percentage of the total production was 1.46 per cent in 1972-73, 9.44 per cent in 1973-74, 9.62 per cent in 1974-75, 9.82 per cent in 1975-76 and 11.47 per cent in 1976-77. Of the quantity procured by the Corporation, purchases through the co-operatives accounted for just 29 per cent to 36 per cent. In other words, the quantity purchased through the co-operatives was just about 3 to 4 per cent of the total jute production.

16.7.15 During the 1978-79 season, the Jute Corporation was given a target of 15 lakh bales of raw jute to be procured by it. According to the Jute Commissioner, a buffer stock of 20 per cent of the jute crop is necessary to take care of year to year fluctuations in supply arising only from weather conditions, provided that some way to ensure a stable, remunerative price, and therefore stable acreage under jute can be found. For the 1978-79 season, the Reserve Bank of India had permitted purchase by the Jute Corporation at a premium of 15 per cent (later raised to 20 per cent) of the minimum support price. It is understood that with the recent weakening of the market price of raw jute - the ruling price in January end, 1979, after the labour strike in jute mills being Rs.205 per bale - the Jute Corporation, which had procured only a small quantity of 7.6 lakh bales in the 1978-79 season, has joined the chorus of the jute traders (i.e. other than those owned by the jute mills) in asking for export of raw jute. The Committee need hardly emphasise that the 1978-79 season provided an excellent opportunity for the build-up of a buffer stock of raw jute, an opportunity which does not appear likely to have been taken. In fact, no agency, not even Government, is seriously concerned about building up a buffer stock of raw jute, which would be of the essence in any attempt to stabilise theprice of raw jute. As long as the Jute Corporation - with all its limitations in regard to finances, directions from Government, and pressure to avoid showing short term losses - has to compete with the trade which is resourceful and able to manipulate the situation,the Jute Corporation is unlikely to succeed in its appointed task.

16.7.16 Ideally, the processing and marketing of agricultural products is best undertaken by co-operatives of the growers of agricultural produce. However, this form of organisation has its limitations. Successful cooperatives have grown up (as for instance

4/ Committee on Public Undertakings (1977-78): Third Report on June Corporation of India Ltd. : Jute and Exploitation of Jute Growers (April 1978); Eighth Report on Jute Corporation of India (Government's Unfair Pricing Policy for Raw Jute); (both April 1978) also Committee on Public Undertakings (1978-79): Twelfth Report on Jute Corporation of India: Back-to-back Arrangement for sale of Jute to Jute Mills; Thirteenth Report on Jute Corporation of India: Procurement and Marketing of jute by Jute Corporation of India (both July 1978).

in the sugar industry) by the formation of co-operatives of large farmers. The eastern region does not have a worthwhile tradition of co-operatives. As indicated in para 16.2.1 earlier, jute is grown in the region on mainly small farms. It may not, therefore, be easy, or even practicable in the near future to form successful co-operatives of the farmers for the processing - upto the baling stage - and marketing of raw jute.

16.7.17 Recent developments, however, point to the possibility of one organisational base which could safeguard the interests of the cultivators in a substantial part of the eastern region. The required organisational base could be provided by the 'Gram Panchayats' or the 'Gram Sabhas' at least in West Bengal and Tripura. It appears to the Committee that some new organisational framework is necessary to break the stranglehold of the benami commission agents of the mills and the 'farias' in order to free the jute growers from the present control of the intermediaries who take all the profit to be made from jute with both the jute growers and the corporate mill sector in a state of financial distress.

16.7.18 But the 'Gram Panchayats' or the 'Gram Sabhas' cannot become "marketing organisations". That framework is already provided in the Jute Corporation which, however, needs to be given the funds and the authority to enter into the jute market in a manner that would enable it to fulfil its charter.

16.7.19 Given the history and the background of the "trade" in raw jute, it is necessary to totally eliminate the present intermediaries — who appear to have the backing of large, unaccounted funds - so that the procurement of raw jute can be made in a manner calculated to serve the interests of both the farmers and the corporate mill sector. In the process, the following three ingredients of policy are commended as essential if the objectives of policy are to be achieved:

(a) the fixing of not only a "support price" but also a procurement price for raw jute, which may be decided by an authority like the Agricultural Prices Commission on the basis of agricultural price parities calculated to promote the production targets of competing crops;

(b) the monopoly procurement of raw jute by the Jute Corporation of India; and

(c) the adoption, by the Jute Corporation of a flexible and pragmatic policy as to purchase operations, making the maximum use of local institutions and organisations, in consultation with the concerned State and District authorities, so that the possibility or the danger of bureaucratic failures is minimised.

16.7.20 It may be noted that a Committee recently constituted by the Ministry of Commerce on the marketing of raw jute, headed by the Jute Commissioner and including among others, representatives of the Department of Agriculture, had also reported in March 1978 inter alia that "canalisation will go a long way in disciplining the raw jute market by curbing the speculative profit margin of the traders and this will delink the middlemen from the growers" 5/.

5/ Report of the Committee constituted by the Ministry of Commerce, Government of India, on Marketing of Raw Jute, P. 40.

16.7.21 In the course of its investigations, as well as in the evidence tendered to the Committee by various organisations, experts and even professional managers of jute mills, this course has been recommended by all except the representatives of the IJMA and of the trade. In fact the size of the "parallel economy" that exists in the matter of jute; the sickness of the industry when large profits are being made by the intermediaries; and the low return to the jute grower notwithstanding high terminal market prices of raw jute after the harvest season is over, all point to the need to eliminate the "faria" and his financier from the jute trade. This cannot be achieved without monopoly procurement of raw jute by a responsible and responsive public sector agency.

16.7.22 The 1978-79 jute season is already over, and the period before the commencement of the 1979-80 jute season can be utilised for a build-up of the organisation of the Jute Corporation, and for the announcement of a reasonable "procurement price" of jute, so that stability can be imparted to the acreage and output of jute, with the assurance of a reasonable price for raw jute.

16.7.23 The suggestion regarding monopoly procurement of jute is a matter of some importance, especially because of the somewhat "mixed" experience in the past in the matter of canalisation of trade in a number of items. The misgivings about the capability of a bureaucratic organisation to undertake this kind of activity need not deter us unduly because here the operation is essentially administrative and not a trading one. The administrative task of procurement at prescribed prices is something that the administrative machinery can be expected to discharge reasonably efficiently, with the help of organisations like the Indian Jute Research Institute for the grading of raw jute.

16.7.24 Since past experience in regard to monolithic State controlled enterprises has not always been very happy, certain safeguards are felt to be necessary in regard to the constitution and structure of any such procurement agency for raw jute. It is recommended that the Jute Corporation be converted into a 'joint sector' enterprise wherein, apart from maintaining overall majority Government ownership, the Governments of West Bengal and other jute growing States may also hold shares. Shares may also be kept for co-operatives or organisations of jute growers. This would ensure accountability of the Jute Corporation to the interests it is supposed to subserve.

16.7.25 In order that "monopoly procurement" of raw jute is successfully implemented, the Jute Corporation must be—

(a) asked to build up its organisation reaching down to the Gram Sabhas and jute growers as a matter of immediacy, with special emphasis on good administrative and organisational men capable of administering the procurement operation, assisted by technically proficient "graders",

(b) provided with adequate funds to undertake the procurement;

(c) enabled to build up an adequate buffer stock of raw jute, both through adequate financial support and access to good, scientific storage facilities; and

(d) put in a position to pay the jute growers in full at the time of delivery of raw jute.

16.7.26 While the exact size of the buffer stock is a matter for separate and more detailed study, the Jute Commissioner is of the view that a minimum buffer of 10 lakh bales of raw jute should be quickly built up so that the market operations can be brought under some discipline. This should be the "carry-over" buffer. As stated earlier, during the current season, the Jute Corporation has procured approximately 7.6 lakh bales of raw jute. This should not be whittled away through export, and should be further augmented during the next season, or even by import during the current season if prices in Bangladesh are low. It was indeed unfortunate that without taking steps for the creation of a buffer stock, the Jute Corporation resorted to export of jute to the extent of 935,000 bales during the last six years, and thereby lost a valuable opportunity to influence the market trends, and is even now pressing for the export of raw jute in order to avoid the problem of financing the present stocks of raw jute.

Chapter - 17

FERTILISER AND PESTICIDES

17.1 Introduction

17.1.1 Chemical fertilizers today constitute one of the most important inputs for agriculture. The price and the availability of fertilisers are therefore important from the point of view of not only the farmers but also the country as a whole.

17.1.2 Partial control over fertilisers goes back to 1944 when the Central Government established the Central Fertiliser Pool (CFP). The procurement and distribution of fertilizers was carried on through the CFP; the State Governments being given supplies of imported fertilisers from the CFP on indent, on a no-profit-no-loss basis.

17.1.3 Formal control over fertilisers dates back to the issue of the Fertiliser (Control) Order in 1957, under the Essential Commodities Act. The other formal control on fertilisers today is exercised under the Fertiliser (Movement Control) Order of 1973. Informal control is also exercised over the price and distribution of fertilisers by various devices to be described later.

17.1.4 The consumption of chemical fertilisers in India in 1975-76 was only 16.4 Kg. of nutrient (i.e. N-P-K) per hectare* as compared to 58.9 Kg. for the world as a whole, and as much as 199.2 Kg. in Western Europe. Furthermore, the three major plant nutrients, Nitrogen, Phosphorous and Potash (N-P-K), were used in India in 1975-76 in the ratio of 7.5: 1.7 : 1.0 as against the world average of 2.0: 1.1: 1.0. According to the Department of Agriculture, agronomical experts in India have recommended an average proportion of 4:2:1. The importance of this point would emerge later.

17.1.5 The Indian fertiliser industry is well dispersed. The production of the main nutrient, Nitrogen, is based on a variety of feedstock. The industry has made rapid progress in capacity and output, and in spite of price control, there have been few complaints of black marketing of late. Slightly more than half the capacity is in the public sector (for both N and P_2O_5). There is no indigenous production of K_2O.

17.1.6 There are (as of 31.12.1978) 21 units producing Urea, 29 units manufacturing single superphosphate, 11 units making Ammonium Sulphate, 3 units each manufacturing Di-Ammonium Phosphate and triple superphosphate and a few others making Calcium Ammonium Nitrate and complex fertilisers (N-P-K), nitro-phosphate etc. The rated capacity of existing units is approximately 3.1 million tonnes for N and 2 million tonnes for P_2O_5(in terms of nutrients). In spite of the fact that India is now the fourth largest producer in the world, imports have been substantial, The output of all fertilisers in 1977-78 (in terms of nutrients) was 2.67 million tonnes, total import being 1.52 million tonnes, or of the order of 36 per cent of the total consumption. The utilisation of capacity

* which has increased lately to 24.6 kg. per hectare in (1977-78), as per Economic Survey, 1978-79.

in the fertiliser industry has been -

Year	% utilisation of capacity	
	Nitrogen	P_2O_5
1975-76	69.8	50.6
1976-77	72.5	69.3
1977-78	66.0	73.0

17.2 Control over fertilisers

17.2.1 As indicated earlier, there are two basic control orders relating of fertilisers - The Fertiliser (Control) Order (FCO) of 1957 and the Fertiliser (Movement Control) Order (FMÇO) of 1960 - rescinded in 1967 but reimposed in 1973 - both issued under the Essential Commodities Act. There are separate Orders, also under the Essential Commodities Act, delegating powers to State Governments to link sales of N-P-K; and also giving powers of summary trials in case of violations. Informal control is also exercised both in the matter of pricing and distribution.

17.2.2 The salient features of the formal control as it exists today, under the FCO and the FMCO, are briefly explained below:-

(a) Government may fix the maximum sale price of fertilisers by manufactuers/dealers.

(b) Different prices may be fixed for different areas or for different consumers. (This is not operated today.)

(c) Manufacturers/dealers are required to display stock and price lists; carry on business in accordance with certain norms laid down (including the ratio of N-P-K for stocking); produce or sell fertilisers only of prescribed quality and specification; and produce or sell mixtures of fertilisers only in accordance with certain norms laid down.

(d) Finally, the movement of fertilisers from one State to another is prohibited, except as permitted by the Central Government.

17.2.3 There is also a substantial subsidy today on fertilisers, the total value of the Central subsidy in 1979-80 being Rs. 448 crores (Budget Estimate). The subsidies on fertilisers are discussed later, in Section 17.6.

17.2.4 In what follows, the discussion concerns the substance, not the form of the control over fertilisers. The latter can be very briefly summed up: there appears to be no need for a number of separate Control Orders on the fertilisers industry. But merging all Control Orders into one order on fertilisers would involve only a simplification in presentation - in itself desirable but not crucial. The impact of the existing controls is what is relevant.

17.3 Problems

17.3.1 The production of nitrogenous fertilisers by different units is based on different types of feedstock, namely, naphtha, natural gas, fuel oil, coal (or lignite), coke oven gas and electricity. The following table sums up the distribution of capacity based on feedstock:

	Present (1.1.1979)	Future (1.1.1983)
Naphtha	70	33
Natural gas	16	27
Fuel oil)	14	25
Coal)		9
Others)		6

The feedstock has important consequences on both capital and operating costs, which are lowest for plants based on naphtha or natural gas, considerably higher for fuel oil based plants, and highest for coal based plants.

17.3.2 The feedstock to be used by different projects is assigned by Government based on the location of the plant and the availability of different types of feedstock. Even before inception, therefore, different plants are programmed to have widely divergent costs of production, for reasons not internal to the plants or to the efficiency of their operation. There also arises the problem of a steep escalation in capital costs of projects implemented after 1972.

17.3.3 For phosphatic fertilisers similarly, the dependence on imported (or indigenous) rock phosphate and imported sulphur, or metallurgical smelter gases or indigenous gypsum (or in the future, pyrites) would make for substantial variations in the cost of production, over which the producers have no control. These differences are, however, much smaller than in the case of nitrogenous fertilisers.

17.3.4 The problem of divergent costs of production is compounded by the fact that substantial quantities of fertilisers are required to be imported. Import costs have fluctuated within wide limits in the past few years.

17.4 Operation of Price Control

17.4.1 The retail prices of Urea, AS and CAN, the three major nitrogenous fertilisers, have been statutorily controlled/regulated under the Essential Commodities Act since 1957. These three constitute 60 per cent of the total consumption of fertilisers in the country. Potash is wholly imported, and its retail price is regulated by the Department of Agriculture. In the case of superphosphate, in the past retail prices were not statutorily fixed, though the ex-factory prices were informally regulated by the Fertiliser Association of India (FAI) according to an approved formula. Since February 1976, a subsidy of Rs. 1250 per tonne of P_2O_5 has been given by the Central Government to promote the use of this nutrient. The benefit of the subsidy was to be wholly passed on to the farmers. Since February 1979, the price of phosphatic fertilisers has been controlled.

17.4.2 To go back in time, till 1965, the Central Fertiliser Pool was used to acquire the indigenous production of nitrogenous fertilisers, and the producers were given a retention price fixed on the basis of a cost study by the Ministry of Finance. In fixing the retail price, account was taken of retention prices and the cost of imported fertilisers, the pool being operated on a no-profit-no-loss basis. After the oil price hike of 1973, the prices of imported fertilisers sky rocketted, and the c.i.f. import price of urea was as high as Rs. 2045 per tonne in April 1974. Prices of naphtha and fuel oil also increased. raising the cost of production. In 1974, the concept of the Fertiliser Pool Equalisation Charge (FPEC) was introduced whereby the manufacturers were required to pay Rs. 610 per tonne of Urea into the account of the FPEC, this amount being used to subsidise the high cost of imported fertilisers.

17.4.3 In November 1977 Government introduced a new system of retention prices for units producing nitrogenous fertilisers on the basis of a report by the Fertiliser Prices Committee constituted by Government, which recommended prices on the basis of a post-tax return of 12 per cent of net worth, subject to a capacity utilisation of 80 per cent and appropriate consumption norms for each factory.

17.4.4 The controlled retail prices of Urea - the most important single nutrient - from the inception of formal control are indicated below:-

Urea - 46% N	(Rs. per tonne)
1.4.1967	840
9.3.1971	923
11.10.1973	1050
1.6.1974	2000
18.7.1975	1850
November 1977	1550

The Budget for 1979-80 has proposed a further reduction in the price of Urea by around Rs. 100 per tonne, by a halving of the prevailing excise duty rate.

17.4.5 Although formally, only the retail prices of Urea, AS and Can were controlled in the past, as from 9th March, 1979 prices of of phosphatic fertilisers have also been brought under the ambit of control. Under this procedure, the ex-factory price gets regulated, with a substantial subsidy also involved. This is illustrated below with reference to Urea, for 1978-79:

	(Rs. per tonne)
1. Weighted average ex-factory cost production of Urea (incl. return of capital)	1398
2. Assumed average ex-factory cost of production of Urea	1158
3. Excise duty @15 p.c. ad valorem	174
4. Fertiliser Pool Equalisation Charge	65

(continued)

	(Rs. per tonne)
5. Notional freight	38
6. Dealer's margin	115
7. Retail price	1550
8. Gap between (1) and (2) subsidised from FPEC account maintained by Deptt. of Chemicals & Fertilisers	240

17.4.6 The mechanism of price pooling is so far "informal" in the sense that the only statutory control is on the retail price, not on the ex-factory price, and one or two factories in the private sector have not accepted the BICP's ruling as to the fair ex-factory price calculated for them. Since there is a dispute as to the retention price, the problem of pooling has been taken care of by crediting the FPEC wth the excise duty (at Rs. 174 per tonne) plus the equalisation charge (at Rs. 65 per tonne), adding up to Rs. 239 per tonne. This amount is used to pay the higher cost factories the difference between their cost and the "pooled" price.

17.4.7 Prices of other nitrogenous fertilisers (Ammonium Sulphate and Calcium Ammonium Nitrate) are regulated in a similar manner.

17.4.8 A similar pattern of pooling of prices of complex fertilisers as well as of straight phosphatic fertilisers has been introduced from February 1979. The control is exercised by the Deptt. of Chemicals and Fertilisers, with ex-factory prices determined on the basis of the cost studies undertaken by the Fertilisers Prices Committee (headed by the Chairman, BICP).

17.4.9 The recommendations of the Fertiliser Prices Committee and Government decisions thereon raise certain issues of general interest, which are mentioned below.

17.4.10 According to the fertiliser industry, there are two major lacunae in the pricing formula: the first pertaining to the method of calculation of "net worth" on which the return is to be calculated; and secondly in regard to cost norms adopted. Both the problems are somewhat technical but they become relevant from the point of view of the Committee insofar as the problem impinges on the method of price fixation under a system of control. The Committee feels that there should be no dispute in regard to such matters, for which uniform, well accepted criteria should be laid down, and published for all to see.

17.4.11 The major point of relevance raised by the fertiliser industry with the Committee pertains to the principle of pooling of prices of fertilisers. In terms of the calculations made by the Fertiliser Prices Committee, the individual retention prices of different factories producing Urea vary from Rs. 948 to Rs. 2261 per tonne, the weighted average price for 1978-79 (based on the expected production during the year) being Rs. 1398 per tonne. According to the industry, by 1982-83, more than 75 per cent of the output of Nitrogen would come from the higher cost new plants. This problem has been discussed in principle in Chapter 4 on the Approach, and has been further exemplified later with reference to capital intensive industries like aluminium, in Chapter 20 on Non-Ferrous Metals. The equipment in the fertiliser industry being highly corrosive, the problem becomes one of some urgency in that the old plants may be in no position to replace their equipment when it wears out fairly soon. According to one fertiliser manufacturer, his

plant, completed in the late sixties for Rs. 60 crores, would now cost Rs. 175 crores to replace, while the depreciation provision plus the profits made during the entire life of the plant as per the present pricing formula would add up to only Rs. 110 crores.

17.4.12 The other point of relevance is that even according to the calculations of the Fertiliser Prices Committee, the weighted average cost of production of Urea in 1979-80 is likely to be Rs. 1496 per tonne instead of Rs. 1398 in 1978-79. It would be seen from para 17.4.5 earlier that there was a subsidy of Rs. 240 per tonne of Urea produced last year. As years go by, and output increases, as also the pooled average cost of production, the element of subsidy is likely to increase unless the price of fertiliser is raised. The FAI feels that if a subsidy is to be paid, it should be met from the budget and not be at the cost of the industry.

17.5 Operation of Distribution Control

17.5.1 The practice of the Central Fertiliser Pool taking up the entire supply of fertilisers was given up from 1965 in a phased manner and by January 1969, the Pool completely stopped the taking of indigenous fertilisers. Government retained the option to buy 30 per cent of each factory's production. This option has been exercised only once, from July 1972 to December 1972. Since then, indigenous producers have been free to distribute fertilisers in the command areas allocated to them.

17.5.2 In 1977-78, around two-third of the total quantum of fertilisers used (in terms of nutrients) was indigenously produced. Potash is today wholly imported. The import of phosphatic fertiliser is limited to Di-Ammonium Phosphate - a complex fertiliser.

17.5.3 The present method of distribution of fertilisers - both indigenous and imported - is briefly indicated below. Imported fertilisers are allotted to State Governments from the Central Fertiliser Pool (CFP), which is operated by the Department of Agriculture. The former (i.e. State Governments) distribute the fertilisers through co-operatives and other institutional agencies. In 1976, State Governments were authorised to distribute fertilisers through private dealers as well. At present, after the State-wise requirement of fertilisers is assessed, the anticipated supply is allocated to different States, on the principle of minimisation of rail movement. Imported fertilisers are supplied by the FCI, while for indigenous fertilisers, producers are free to distribute the allocated quantities through any agency they like. Phosphatic fertilisers are distributed by the manufacturers through their retail agents.

17.5.4 The FCO lays down rules regarding the display of stock and price list by the dealers; as also certain requirements in the matter of packing, marking of containers, etc. An innovation introduced in September 1976 authorises State Governments to compulsorily link the sale of phosphate and potash with nitrogen, the ratio of N:P:K being left to each State Government to decide. This requires dealers and stockists to hold N-P-K in certain given proportions in each State. The State-wise break up of consumption of plant nutrients per unit of gross cropped area is given in Annex 17.1 .

17.5.5 As on 1.4.1978 there were 101,839 retail sale outlets for fertilisers. Of these, 43,264 were in the co-operative sector and 58,575 in the private sector. The State-wise break up of sale points is given in Annex 17.2. There has been an increasing trend of fertiliser distribution through the co-operatives.

17.5.6 The import programme, including the specifications, packing, timing etc. are determined by the Department of Agriculture, while imports are arranged by the MMTC. It is found that the specifications are occasionally different from specifications followed in the rest of the world. While there are reasons for this - as for example, the special problems of handling in India which require special instructions regarding packing - the tight specifications in regard to nutrient content, moisture, etc. tend to limit the number of suppliers abroad, and the options open in regard to import.

17.5.7 The Committee's attention has been drawn to some other constraints which aggravate the problem of supply at reasonable prices. For instance, the bulk handling plant at Kandla, installed at a cost of Rs. 11 crores, is lying idle because of problems internal to the FCI and the Kandla Port authorities, and the reluctance of labour to allow mechanised unloading. The cost of bagging is understandably higher abroad; and apart from the higher import cost of bagged fertilisers, if fertilisers are imported in bulk (and in unbagged conditions) many of the present constraints regarding packing conditions could be eliminated. With bagged urea quoted in Europe in December 1978 at prices varying between $135 and $155 per tonne f.o.b., bulk urea may be expected to be significantly cheaper; and urea imported cheaply in bulk form could conceivably be sold at the controlled retail price if costs of handling and transportation can be brought down. The Committee notes that some of the present distribution controls, as well as subsidies on fertilisers, become necessary because of extraneous factors like the one indicated above. The budget provision for the loss in respect of imported fertilisers during 1979-80 is Rs. 145 crores. If some of the constraints referred to above can be removed, there may be no need for a subsidy on imported fertilisers.

17.5.8 The Food Corporation of India (FCI) is today one of the major designated authorities used for distribution of fertiliser in India. The main task of the FCI is food procurement and storage, and the FCI does not appear to be suited to fertiliser distribution, and in any case, to undertake extension work. The handling costs of the FCI are found to be considerably higher than the costs of other agencies (mainly coast-based fertiliser plants) recently used for distribution of imported fertilisers. For instance, the total claimed for handling and distribution by the FCI, with effect from December 1978, is Rs. 542 per tonne for bulk fertilisers and Rs. 427 per tonne for bagged fertilisers. As against the above, the rates quoted by some of the port based fertiliser companies vary from Rs. 295 to Rs. 350 per tonne for bulk fertilisers and Rs. 213 to Rs. 258 per tonne for bagged fertilisers. Admittedly, the FCI is directed to maintain a small reserve stock, the interest and godown charges relating to which should not be treated as part of the FCI's costs. For 1977-78, the interest charges were Rs. 83 per tonne. Even if due allowance is made for the storage and interest cost of fertilisers kept as a reserve, the FCI's costs would appear to be substantially higher than those of other distributors.

17.5.9 The Committee feels that the present subsidy on fertilisers can be reduced substantially, or possibly entirely, if the handling costs are reduced.

17.5.10 Although distribution of fertilisers within the command area allocated to individual factories is free, the producers have complained of informal pressure to

distribute a minimum of 50 per cent through co-operative societies. The producers allege that co-operatives do not lift fertilisers on a regular basis and only want large consignments as and when required by farmers which creates a problem of transport as well as of storage in the factories. The producers have also suggested the enlargement of the 'zones' allotted to them for fertiliser distribution, so as to offset any danger of demand recession in pockets where rainfall may have failed. They also claim that fertiliser distribution involves extension work; and that they should be allowed to retain command areas where they have initially done extension work, or at least to compete with new (public sector) factories now coming into production. The view of the concerned authorities is that the minimisation of (rail) transport, and therefore, a rational regional allocation of consumption areas to fertiliser factories, is an inescapable part of the plan for the production and use of fertilisers.

17.5.11 The Committee feels that rationalisation of transport is an important consideration. Nonetheless, there should also be some degree of competition so that no command area is allocated wholly to any one producer. Flexibility in regard to sale outside the command area, for some percentage of the output, could therefore be allowed. This would, inter alia permit of quick adjustments in case there is failure of production in any factory.

17.6 Fertiliser subsidy

17.6.1 Subsidies on fertilisers are, with the effect of the 1979-80 Budget, of four different types-

- (i) under the Fertiliser Retention Price Scheme operated by the Fertiliser Industry Coordination Committee;
- (ii) on imported fertilisers;
- (iii) on indigenous phosphatic fertilisers; and
- (iv) on internal freight, introduced in the Budget for 1979-80.

17.6.2 In addition, subsidies are given for fertiliser use under certain developmental programme in backward, hilly, inaccessible and tribal areas, or under special programmes for the benefit of small farmers, marginal farmers and farmers in dry areas. However, this category cannot be designated as constituting a subsidy on fertilisers. These programmes are designed to assist certain well-defined target groups. A specified percentage of expenditure (varying from 25 to 50 per cent) incurred by the target group on a variety of activities gets subsidised under these programmes. Fertilisers are only one of several items or activities assisted under these special programmes like the SFDA, MFAL, IRDS, DPAP, etc.[1/] Nonetheless, this type of subsidisation is mentioned here because it has relevance to some of the findings of the Committee.

1/ Small Farmers Development Agency Programme; Marginal Farmers and Agricultural Labourers Programme; Integrated Rural Development Scheme; and Drought Prone Areas Programme.

17.6.3 The total fertiliser subsidy from 1977-78 to 1979-80 is indicated below:-

(Rs. crores)

		1977-78 (Actuals)	1978-79 (Revised Estimates)	1979-80 Budget Estimates)
1.	On indigenous N	25	89	245
2.	On imported N and P_2O_5	-	136	145
3.	On indigenous P_2O_5	82	94	20
4.	On internal freight	-	-	38
	Total:	107	319	448

17.6.4 The subsidy on phosphatic fertilisers and for the fertiliser retention price scheme was introduced in 1976-77 and 1977-78 respectively. The subsidy on imported fertilisers has been given for a long time but it has really grown in importance since 1974-75 when there was a sharp increase in world prices of fertilisers.

17.6.5 The system for operating the subsidy under the Fertiliser Retention Price Scheme (available for Urea, AS and CAN) is somewhat complex and is illustrated briefly in terms of the scheme for Urea. The officially notified consumer price of Urea at Rs. 1550 per tonne calls for both the pooling of the price of different manufacturers, and an additional subsidy which is provided from the budget of the Department of Chemicals and Fertilisers. The manner of calculation of this subsidy, in respect of urea, has been briefly noted in para 17.4.5 earlier. The budgetary provision for 1979-80, to meet the difference between the actual average ex-factory price and the national pooled price of nitrogenous fertilisers is Rs. 177 crores. The Department of Agriculture claim that if the excise duty and the (State) sales taxes were to be withdrawn, the subsidy on (nitrogenous) fertilisers would become quite small. While this may have been generally valid for 1978-79, there are several flaws in this argument. The sales tax today is an additional impost on the notified retail price. Since the reduction of the excise duty in the 1979-80 Budget has been passed on to the consumers of fertilisers through a reduction in the price, the subsidy remains without any offsetting taxes as earlier. In any case, with the steep escalation in the cost of production from year to year, the subsidy on indigenous fertilisers would rise progressively, if the current sale price of fertilisers were to be maintained. Even the 1979-80 figure, on this account alone, is Rs. 245 crores. To this has to be added a substantial part of the freight subsidy of Rs. 38 crores,

17.6.6 Insofar as imported fertilisers are concerned, the subsidy is not even shown in the budget as a subsidy. The cost of import *plus* the cost of distribution of imported fertilisers exceeds the consumer price (for Urea, Rs. 1550 per tonne before the 1979-80 Budget) by a considerable margin, and only the net loss under this head is shown in the Budget of the Department of Agriculture, under "purchase of fertilisers". The overall loss is partly made good from the Fertiliser Pool Equalisation Charge, and the balance met from the budgetary grants of the Central Government for the Department of Agriculture. The entry in the budget is somewhat misleading; more importantly, it

hides the magnitude of the subsidy. This is briefly illustrated below:-

(In thousands of Rupees)

	Department of Agriculture Demand No. 2 Major Head 505 Actuals 1977-78	Revised Estimates 1978-79	Budget Estimates 1979-80
Capital Expenditure			
AA-Capital outlay on agriculture			
....			
AA 3(1) - Purchase of Fertilisers	500,96,41	770,01,40	635,66,40
x x	x	x	x
Capital Recoveries			
Capital outlay on Agriculture:			
Purchase of Fertilisers:			
Recovery in respect of stock transferred to Food Corporation of India	(-)205,00,00	(-) 45,34,00	..
Other recoveries	(-)341,86,58	(-)588,44,00	(-)491,41,00
	(-)545,86,58	(-)633,78,00	(-)491,41,00

It is not clear from the budget what the precise loss on fertiliser account is; and details in regard to such large transactions are not spelt out whereas, for other items, full retails are given for all expenditure above Rs. 5 lakhs. The net loss is doubtless indicated in the Budget Speech;and one can get the details from the FCI. But the entry in the budget is vague, inclusive of all manner of expenditures, and not specific as to losses arising from the sale of imported fertilisers. The Committee feels that this lacuna should be looked into.

17.6.7 The administrative arrangements for the distribution of fertilisers do not concern the Committee. Nonetheless, it seems to the Committee that the present system results in an avoidable increase in the amount of subsidy on fertilisers. As of today the subsidy is a burden on the tax payer. But it could be eliminated for imported fertilisers, if the distribution of imported fertilisers were to be handled more economically. There is also justification for the fertilisers handling accounts of the FCI being not only maintained separately but also published and exposed to scrutiny by Parliament. Also, if a reserve stock of fertilisers is to be maintained as a matter of public policy, the cost of the buffer stock should be shown separately.

17.6.8 The third type of subsidy - at Rs. 1250 per tonne of P_2O_5 until recently - is given as an incentive for the use of a more scientific mix of fertilisers. The budget provision under this head for 1979-80 is Rs. 20 crores.

17.6.9 As noted in para 17.1.3 earlier, in India, the use of N:P:K is highly unbalanced, and weighted in favour of nitrogen. In the evidence tendered before the Committee, both individual experts as well as the Department of Food and a number of State

Governments have urged the need for a more balanced use of chemical fertilisers, in order to get optimum results. The Committee finds that some State Governments, notably Uttar Pradesh, Punjab and Haryana, give an additional subsidy for the use of P_2O_5, as a promotional measure. The Committee is informed that such promotional steps for brief periods in the past have greatly helped in raising agricultural productivity. While endorsing such subsidies, the Committee would recommend that promotional subsidies should be strictly promotional, i.e. valid for a limited number of years only.

17.6.10 Phosphatic fertilisers, which were under informal control until recently, have since March 1979 been brought under formal control, the price of super phosphate determined on the basis of a cost study by the Fertiliser Prices Committee. Historically, when the Government agreed to grant a subsidy of Rs. 1250 per tonne of P_2O_5 in 1976 as a promotional measure - at a time when the capacity for the manufacture of super phosphates was largely unused - the FAI agreed that the ex-factory price of phosphatic fertilisers would not be raised by the producers except to the extent warranted by changes in prices of rock phosphate, sulphur and bagging material. Price variations were thereafter allowed every six months, based on changes in cost during the previous six months. Arising from the introduction of the subsidy on P_2O_5 in March 1976, the maximum selling prices were determined by the Fertiliser Association of India. This system covered only single superphosphate, which is mentioned here as an illustration of a control system not operated by a Government agency, but voluntarily by an association of the industry and trade.

17.6.11 The fourth type of subsidy, introduced in the 1979-80 Budget, relates to the subsidy on internal freight, for which the provision for the year is Rs. 38 crores.

17.6.12 In addition to the four types of subsidy reviewed above, many State Governments grant subsidies for the use of fertilisers. A statement giving the varying scales of subsidy granted by States in 1976-77 is given in Annex 17.3.

17.6.13 Although, as stated earlier, the subsidy on the use of fertilisers under special programmes like the SFDA, MFAL, IRDS and DPAP cannot be deemed to be a subsidy on fertilisers, nonetheless, it may be useful to recount the scale of subsidy available to the selected target groups under these programmes. These are listed in Annex 17.4. It may be emphasised that the subsidy under the programmes is available for one or more of several types of expenditure, fertiliser purchase being one of several such types of expenditure eligible for the subsidy.

17.7 Relevance of controls/rationale of subsidies

17.7.1 The twin objectives of price control on nitrogenous fertilisers are, first, to provide this important input to farmers at reasonable prices; and secondly, to equate the price of fertilisers through price pooling to allow for the widely divergent capital and operating costs arising from the feedstock used, which are beyond the control of the producer.

17.7.2 In the evidence tendered before the Committee, both agronomists and representatives of State Governments have argued in favour of the continuance of subsidies on fertilisers, in the interest of the rapid development of agriculture. Some Government authorities have argued - though not quite justifiably - that if all taxes and duties on the one hand and subsidies on the other are netted out, there would in effect be little subsidy on fertilisers.

17.7.3 According to the Department of Agriculture, the gross financial return on every rupee invested in fertilisers for paddy and wheat cultivation, was as follows for the period 1973-74 to 1977-78:-

Gross financial return on every rupee invested in fertilisers (Rs)

		1973-74	1974-75	1975-76	1976-77	1977-78
PADDY						
N	(from Urea)	3.68	2.04	2.21	2.34	2.74
P	(from DAP)	2.44	1.07	1.27	1.24	1.52
K	(from MOP)	3.10	1.80	2.02	2.43	2.76
WHEAT						
N	(from Urea)	4.00	2.90	3.13	3.32	3.68
P	(from DAP)	2.65	1.52	1.80	1.76	2.21
K	(from MOP)	3.36	2.56	2.87	3.45	4.10

17.7.4 There is no doubt that the application of fertilisers has led to a significant increase in foodgrains output. If the figures given above are to be believed, the return from fertiliser application is also considerably higher than the amount spent on fertilisers. However, the above figures are global averages; they do not indicate the marginal return from fertiliser application which, on *prima facie* grounds, would be less than the averages shown above. There is therefore a case for a promotional subsidy on fertilisers for its use on marginal farms.

17.7.5 As far as the control system is concerned, it has two facets: price control and control over distribution. Since the production of fertilisers must necessarily be based on different feedstock for different factories, for reasons of broad strategy in regard to alternative uses of scarce materials, and since costs of production would vary significantly for this reason, there is justification for rice pooling. As to whether any adjustment need be made for the capital cost of the it w rising from the vintage of the plant, that is, whether the return should be computed on the historical cost or replacement cost of equipment, is a different matter. This problem has been discussed in Chapter 4 on the Approach, and the Committee's views have been summed up there.

17.7.6 In the case of the fertiliser industry, there is considerable force in the argument that in a few years, the price of fertilisers would get largely governed by the cost of production of new, high-cost plants. The Committee feels, however, that the adjustment to a higher price should be gradual. The Committee is of the view that a higher return to existing plants should be given on condition that the additional revenue is "funded" and used for replacement/expansion, and not eaten away by the distribution of dividends.

17.7.7 The Committee feels, therefore, that control over fertilisers is essential and cannot be dispensed with, because -

(a) price pooling is inescapable in the fertiliser industry as it is placed today;

(b) the prices of fertilisers have to be kept down to reasonable levels in order to encourage agriculture;

(c) while inescapable increases in fertiliser prices have to be allowed, the increase should be brought about in gradual steps; and

(d) the older plants should be given a special allowance for replacement, which should be funded, so as to allow for necessary replacements and renewals when due, by making the "pooled price" somewhat higher than the weighted average cost.

17.7.8 As to whether any subsidy on fertilisers is justified has to be examined in the light of the general criteria already laid down in Chapter 4. Apart from the question as to who the beneficiaries of the subsidy are, there is also, in this case, the issue of the cost/benefit ratio arising from the application of fertilisers to the farmers. In this context, there is the additional issue of the cost/benefit ratio for the country as a whole, arising from the need to quickly raise the level of agricultural output.

17.7.9 According to all available evidence, including a study by the National Sample Survey for the agricultural year 1971-72, buttressed by a similar study undertaken recently by the National Council of Applied Economic Research, the application of chemical fertilisers has been as widespread for small holdings as for large ones, but this has been limited to only certain areas, generally. Similar findings of the NCAER, in a more recent survey (conducted in 1976-77) are given in Annex 17.5. The greatest use of fertilisers has been made for rice and wheat among food crops, followed by sugarcane, groundnut and cotton in that order, among non-food crops. The percentage value of chemical fertiliser usage as well as the application of chemical fertilisers in rupees per hectare for different crops, as per the National Sample Survey report for 1971-72, are given in Annex 17.6.

17.7.10 The following conside ns need to be born in mind while considering the subsidy on fertilisers. It has been d -

(a) that the national objective of a rapid increase in agricultural output calls for the subsidisation of fertiliser use,

(b) that the subsidisation of inputs would be a far better method of subsidisation of agriculture than the raising of the prices of agricultural products. The reason is that a subsidy on inputs is likely to benefit all farmers while a higher price for agricultural products would help only the relatively larger farmer with a marketable surplus,

(c) that even the more prosperous farmers cannot be stated to have a standard of life comparable with urban residents who enjoy many social amenities not available in rural areas, and that a shift in the terms of trade in favour of the agriculturist is desirable, both in order to stimulate agricultural production and in order to increase the demand for manufactured products in the rural areas,

(d) that the fertiliser subsidy as of today largely neutralises the burden of diverse taxes on fertilisers, and that the net subsidy on fertilisers is rather small, and finally,

(e) that a fertiliser subsidy, to the extent it is promotional, must be retained.

17.7.11 As against the above, it is stated : (a) that the return from fertiliser use is sufficiently high to warrant its being used without any subsidy; (b) that in any case there is little or no direct tax paid by the rural sector; (c) that the heavy investment required for the production of fertilisers should be financed in the final analysis by the users of the fertilisers; (d) that the benefit of the fertiliser subsidy accrues largely to relatively more affluent farmers in irrigated areas; and (e) that with increasing cost of fertiliser production, if the subsidy is not limited, it would snowball into very large proportions in the next few years. This underlines the need for caution in considering the issue of subsidisation of fertilisers.

17.7.12 The Committee feels that there is no case for a continued long term subsidy on fertilisers, but that the present subsidy cannot be given up suddenly. Since the average cost of production of fertilisers is going up, there is a case for increasing the price of fertilisers in a series of steps, at a rate somewhat higher than the cost of production, so that over the next four or five years, the subsidy can be eliminated and fertilisers marketed at an economic price. At the same time, a promotional subsidy for phosphatic fertiliser use is justified, which can be phased out in three years. The Committee feels that subsidies should continue to be given through the various schemes for Integrated Rural Development. In fact, the Committee would recommend increasing the subsidy available under the Scheme to the farmers deserving subsidy. One advantage of the latter is that the subsidy would then accrue to the target group separately identified as deserving of a subsidy.

17.8 Organic Fertilisers

17.8.1 In order to maintain the texture of the soil, it would be desirable to maximise the use of organic fertilisers. It has been estimated that the efficient recycling of all human and animal wastes alone could provide 42 Kg. of N, 11 Kg. of P_2O_5 , and 25 Kg. of K_2O per hectare on an annual basis. Apart from the fixing of atmospheric nitrogen by proper crop rotation techniques, the use of bio-fertilisers - like nitrogen fixing algae - and the utilisation of soil nutrients provided by leaves and urban garbage as well as human and animal wastes, need to be encouraged. This can be done in a variety of ways.

17.8.2 If the amount of organic manure available from human, animal and other urban wastes could be channelled, it would be a very substantial and desirable complement to chemical fertilisers. Since cow dung is traditionally used as a fuel, its preservation and use as an organic manure requires both the provision of a cheap alternative fuel, and the subsidisation of organic manure. Gobar gas could provide both manure and fuel. There is today a subsidy given by the Department of Agriculture for the setting up of Gobar Gas plants. There is also a subsidy given to municipal corporations and agro-industries corporations - at the rate of 33 per cent of the capital cost - for setting up of compost plants. In addition, non-recurring grants are provided by the Department of Works and Housing to municipal corporations for strengthening the infrastructure required for feeding such plants, e.g. for the purchase of refuse removal trucks, construction of refuse collection sites etc. to the extent of 50 per cent of the

cost. Establishment expenditure on the technical staff is also met up to 50 per cent, subject to a maximum of Rs. 1 lakh per annum, during the first five years of the operation of the plant, the subsidy being provided by the Department of Works and Housing.

17.8.3 Despite numerous Committees having supported these activities, and despite the subsidy indicated above, actual progress in the matter of setting up of Gobar Gas plants as well as of composting units has been slow. The Committee feels that this programme is of vital significance. Apart from the supply of organic manure, a Gobar Gas plant can save on kerosene (for lighting and as fuel) as well as on firewood, and thus avoid the present wanton destruction of trees everywhere. The Committee feels that there is a strong case for increasing the rate of subsidy, and also for making it a part of the Integrated Rural Development Scheme, with a definite annual target set for each block.

17.8.4 The attention of the Committee has been drawn to yet another problem concerning the subsidy at present being given by the Department of Agriculture for the setting up of Gobar Gas Plants. It appears that as of today, the subsidy for Gobar Gas plants is given only to plants of a design approved by the KVIC, though there are alternative designs of Gobar Gas plants which are cheaper and more efficient but not formally approved by the KVIC. The Committee notes that the Department of Agriculture is receptive to new designs being tried out. The Committee would recommend that there should be no monopoly in regard to the design of Gobar Gas plants and that all restrictions currently applied on the provision of bank finance and assistance from the Department of Agriculture for Gobar Gas plants (of designs other than approved by the KVIC) should be withdrawn.

17.8.5 With the increasing population in urban areas, the dumping of city refuse and the treatment of human wastes are gradually posing increasing problems. The mechanisation of composting would, apart from providing useful organic manures, also improve sanitation, and help to reduce unhygienic conditions and disease. But apart from that, all organic waste materials can be used for production of "gas", and thereafter, the waste material becomes immediately usable as manure. The Committee would recommend that the composting of urban wastes should be made obligatory on all municipalities and also, if necessary, resources should be made available for this purpose.

17.9 Pesticides

17.9.1 With the increasing use of chemical fertilisers, the use of pesticides and weedicides assumes increasing importance. According to an estimate made by the National Council of Applied Economic Research, based on experiments undertaken in several States over a period extending from 1950-51 to 1965-66, the maximum loss of crops due to pests alone has been as much as 40 per cent for cotton, and ranging between 9 to 12 per cent for paddy, jowar, sugarcane and potato. These estimates of losses have been based on the difference of yield from treated and untreated plants. For practical purposes, the Department of Agriculture feels that the loss arising from pests and plant diseases varies from 10 per cent to 30 per cent, with even heavier losses in the case of large scale infestation/epidemic.

17.9.2 In the evidence tendered before the Committee, both the Plant Protection Adviser and the Department of Agriculture on the one hand and independent agronomical

experts on the other have indicated that for certain crops, the application of pesticides by individual farmers is of little consequence because of the danger of infestation from neighbouring fields. Cotton has been cited as one of the crops in which there is grave danger of pests moving from untreated fields, in small plots where the farmers cannot afford plant protection measures. In this connection, the need for a national level endeavour in order to combat the problem has been specially underlined, to be financed if necessary by a levy on all farms treated with pesticides. For cotton, for instance, it has been stated that six sprayings are necessary during a crop season, to get the optimum results.

17.9.3 The need for a national level programme has also been emphasised by State Government, and action taken by certain States on such basis has been cited by some State Government authorities as having given good results, as for instance in the control of apple-scab in Jammu and Kashmir.

17.9.4 There are of course dangers of over-reliance on pesticides, even experts admitting that pests begin to develop immunity as a result of continued application of pesticides. The answer to this problem can only be found by the continued application of science and technology to resolve the problems of the growers.

17.9.5 Most State Government authorities have in this connection also indicated that the present prices of pesticides as well as of the costs of application of pesticides are today beyond the means of small cultivators. Most State Governments subsidise the spraying of pesticides, particularly with reference to certain crops. It has, however, been suggested to the Committee that the present subsidy is inadequate because the cost of the pesticides has now gone out of reach of the smaller cultivators, and that spraying costs are only a part of the total cost of pesticides today, the whole of which calls for a subsidy in the larger national interest. The Committee feels that there is need for a national level scheme for spraying pesticides over sensitive crops.

17.10.1 As already stated, it has been represented to the Committee by several State Government authorities that it would be better for Government to subsidise inputs for agriculture than to agree to a higher procurement price for crops, on the ground that a subsidy on inputs would benefit all cultivators, large and small, whereas a higher procurement price would benefit only the large farmers with a marketable surplus. The Committee generally agrees with this view, and would like to endorse this approach with the further safeguard that the supply of such inputs should be made more plentiful and available to all farmers. The Committee feels that there is need for a promotional subsidy for a few years in regard to some of these inputs which may also help to introduce better farming techniques, much on the same lines as a temporary subsidy on phosphatic fertilisers to popularise their use. The modus operandi of such subsidies is a matter for serious consideration to ensure, first, that the total amount of subsidy does not snowball into unmanageable proportions and does not eat up a large part of the revenues which would otherwise be available for developmental expenditures; and secondly, that any scheme of subsidisation should be so designed as to benefit the target groups deserving of subsidy. In terms of these criteria, the Committee feels that the percentage of assistance at present available under the various agricultural schemes like the SFDA, MFAL, IRDS and DPAP should be increased, so that the farmer has a really effective choice between different uses of the funds made available under these programmes.

Chapter 18

COAL

18. 1 Introduction

18. 1. 1 Apart from providing fuel for industry, for power generation and for rail transport, coal constitutes also a basic input for nitrogenous fertilisers and steel. As of today coal meets about 45 per cent of the energy requirements, and is used to generate about 61 per cent of electricity in the country. The coal industry employs around six lakh workers today.

Pattern of supply/demand

18. 1. 2 Coal Production: Coal production in India during 1977-78 was 101 million tonnes of which 89 million tonnes were produced by Coal India Ltd. (CIL). The break-up of production in 1977-78 is as follows:—

Table I

Output of coal

Name of company	No. of Mines	Production (Million tonnes)
Bharat Coking Coal Ltd.	90	20. 21
Eastern Coalfields Ltd.	115	25. 26
Central Coalfields Ltd.	81	21. 20
Western Coalfields Ltd.	66	21. 67
North Eastern Coalfields	4	0. 62
Total - CIL	356	88. 96
Singareni Collieries Co.Ltd.	47	8. 90
IISCO	3	0. 80
DVC	1	0. 20
TISCO	6	2. 10
Total overall	413	100. 96

Quality differences

18. 1. 3 The coal produced in India may be briefly classified as below:—

(a) Coking coal - required for direct feed to feed the coke ovens by steel plants. According to its caking properties coking coal is classified as prime, medium and weakly caking. The latter two must be blended with prime coal, or used as soft coke for domestic consumption;

(b) steam coal - i. e. non-coking coal with a high heat value used by the railways and most industries (other than power); and

(c) slack coal - i.e. non-coking coal of a size below the minimum specified for steam coal, usually taken for brick burning etc.

18.1.4 The run-of-mine (ROM) raw coal obtained from mines comes with stones, shale and other dirt and has to be cleaned to get saleable coal. In India this is done by manual screening. The present screening is often unsatisfactory.

18.1.5 As of today, more than two thirds of the coal produced is consumed by bulk customers as will be seen from the table below:—

Table II

Offtake of Coal in 1977-78

(Figures in million tonnes)

	Supplied by Coal India Ltd.	Total offtake	Percentage share in total offtake
1. Steel	20.10	22.79	22.2
2. Power	24.25	28.15	27.4
3. Railways	11.87	13.37	13.0
Sub-Total	56.22	64.31	62.6
4. Cement	3.67	4.99	4.9
5. Fertilisers	1.21	1.26	1.2
6. Other industries including textiles	19.11	20.71	20.2
7. Brick burning	3.43	3.48	3.4
8. Soft coke	3.90	3.90	3.8
9. Colliery Consumption	3.09	3.33	3.3
10. Export	0.65	0.65	0.6
Total	91.28	102.63	100.0

Note: Road despatches included in others (Row 6)
Source: Coal India Ltd. Memorandum submitted to the Committee.

18.1.6 As early as 1954-55, the Estimates Committee of Parliament[1/] had come to the conclusion".............that in the long run nationalisation of coal industry is essential in the interest of industrial development". In October 1971, coking coal was nationalised with a view to ensure scientific development of the coking coal mines and conservation of coking coal to meet the increasing demand of the iron and steel industry, and 214 coking coal mines (208 in Bihar and 6 in West Bengal) were taken over and entrusted to a new company in the public sector, namely, the Bharat Coking Coal Ltd. (BCCL). This was followed in January, 1973 by the taking over of 711 non-coking coal mines in the States of West Bengal, Bihar, Maharashtra, Madhya Pradesh, Orissa and Assam. Of these, 174 mines in Jharia were entrusted to BCCL and the rest to the Coal Mines Authority Ltd. (CMAL), a new Government Company.

18.1.7 Since coal has now been nationalised, all controls on coal are administrative, and the existing statutory controls are redundant. Nonetheless the history of

1/ Estimates Committee, 15th Report (First Lok Sabha)- page 3, para 10.

past controls is briefly reviewed below, since the hangover of the past still remains even after nationalisation.

18.2 Controls on coal

18.2.1 Price control: Price control on coal was first introduced in July, 1944, under the Defence of India Rules. Later, the more comprehensive Colliery Control Order (also issued initially under DIR in 1945) was brought under the Essential Commodities Act.

18.2.2 In 1957 the Government appointed a Committee to examine the production cost of coal and coke and to recommend changes in the existing price structure. The Coal Price Revision Committee (CPRC) made, for the first time, a detailed examination of the cost of production of a large number of representative mines, and prices recommended by CPRC on the basis of the overall average cost - ranging between Rs. 17.45 and Rs. 22.45 per tonne for different grades of coal from different areas- were formally fixed. The prices of all varieties of coal and coke were decontrolled with effect from 24.7.1967.

18.2.3 After decontrol, prices were settled through mutual negotiations between the producers and the consumers, particularly in respect of large consumers like the Railways, the Steel Plants and the Power Houses. Generally, non-coking coal prices for other consumers were determined by the prices paid by the Railways.

18.2.4 In the early seventies, there was a dispute between the Railways and the coal companies, and the BICP was asked to lay down reasonable prices of coal for the Railways. After nationalisation of the coal industry, an Inter-Ministerial Committee was set up in January, 1974 under the then Director - General of BPE to examine the cost structure of coal production and to prepare a comprehensive paper on the revision of coal prices. The Committee inter alia recommended a new formula for differential pricing of different grades of coal based on their heat value. In order to keep down the price of coal, Central Government allowed a lower price increase than recommended, and did not allow any return on equity capital.

18.2.5 Another Inter-Ministerial Committee (Chakraborty Committee) was constituted in January, 1975 to examine the question of coal prices, so as to take note of the National Coal Wage Agreement which came into force w.e.f. 1.1, 1975. The Committee submitted an interim report in March, 1975 recommending a new price structure for 1975-76. The Central Government allowed an increase considerably lower than the price recommended, and once again did not allow any return on equity. The pithead prices of coal and coke were revised with effect from 1.7.1975. These prices are still in force. The present all India average price of coal is Rs. 64.92 per tonne.

18.2.6 The Chakraborty Committee submitted its final report in January, 1977 on the revision of coal prices for 1977-78 and 1978-79 to the Government. The Committee recommended further increases in the price of coal. While considering the proposals for the revision of prices, it was decided by the Government that in the first instance a study may be made as to the scope for economies and improvement in

efficiency in the working of the coal industry. Accordingly a Committee was set up to go into the above aspects; the report of this Committee (the Baveja Committee) is presently under Government's consideration.

18.2.7 It is relevant to point out in this connection that according to the Energy Ministry, at present, the average loss per tonne of coal is between Rs. 15 and Rs. 20. The past losses on coal are briefly indicated below 2/:—

Year	Loss (Rs. crores)
1976-77	45.50
1977-78	89.76
1978-79	140.00 (estimated)

18.3 Distribution control

18.3.1 Control on the distribution of coal was introduced in 1945 under the Colliery Control Order, when it became imperative to make most of the coal available for the war effort. The Colliery Control Order empowered the Government to control the price, distribution and quality of coal, and additionally, laid down conditions concerning conservation, mine safety and the submission of returns.

18.3.2 The Coal Price Revision Committee (1957) had recommended the discontinuance of control on both prices and distribution of hard coke. Government, however, considered it advisable to resort to only gradual relaxation of control. Partial relaxation of distribution control was effected from July, 1964, when the consumers were allowed to take grade II and grade III coals, as well as soft coke, subject only to the restrictions of transport, imposed by the Railways. Subsequently, in 1966, the prices and distribution of hard coke were completely decontrolled.

18.3.3 In July, 1967, Government decided to remove distribution control on all coals other than coking coal required by the metallurgical industries. Control was reimposed on the movement of hard coke in July, 1973 and again removed in September, 1975.

18.3.4 Even after decontrol, the Railways continued with their "Rationalisation Scheme" for rail movement and the system of sponsoring of demands. Basically, this involved various State Governments to indent for or to sponsor requirements of soft coke, of coal for brick burning and coal required by industries. The demands for coal of the steel industry and of power stations were certified by the concerned technical authorities. Demands made by defence had priority over others. The scheme was formulated sometime in 1953 by the Coal Controller in consultation with the Ministry of Railways, after taking into consideration the available movement capacities and the need for economy in transport. The basic principle of the rationalisation scheme has been to transport coal from the nearest source to eliminate cross movements.

18.3.5 As indicated earlier, in July 1964, in view of the improved transport position, lower grades of coal (Grade II and below) were freed from the control exercised by the Coal Controller. As a consequence, such indents placed upon the

2/ Minister of Energy: reply to Rajya Sabha Unstarred Question No. 677 on 30.11.1978.

Railways increased suddenly, and far exceeded either past movements or the production in Bengal-Bihar coal fields. These demands were speculative, and it became impossible for the Railways to meet these highly inflated demands. As noted earlier it was decided by the Railways to continue the system of getting all demands for coal sponsored by the State Governments and other concerned authorities as was required earlier by the Coal Controller. In July 1967, when the Government decided to announce complete decontrol of all non-coking coal, the Railways continued with the system of sponsorship to ensure that coal for essential consumers got moved on a priority basis and that the indents of such consumers did not get lost in the wake of inflated indents for less essential consumers.

18.3.6 For the purpose of despatch of coal by rail as of now, all movements are governed by the "Preferential Traffic Schedule" of the Railways. As per the Preferential Traffic Schedule, the Railways lay down certain quotas from time to time for certain types of coal, in accordance with the movements sponsored by the different sponsoring authorities.

18.3.7 In view of the importance of Defence, Steel, Power and Cement, the Railways attempt to meet their requirements in full as recommended by the concerned sponsoring authorities, in addition to meeting the Railways own requirements. For steel, power and cement, 'Linkage Committees' have been set up to co-ordinate demands and movements. Other consumers like brick burners, small scale industries, domestic users, etc., get wagon allotments on an ad hoc basis in the background of the level of past despatches to such consumers, and the overall availability of wagons.

18.3.8 The present position about the system of distribution of coal is summarised below:-

(i) Coking coal : Distribution is under statutory control. Allocations are made by the Coal Controller after monthly coal allocation meetings attended by representatives of producers, major consumers and the Railways. A Standing Linkage Committee reviews the supply of coal to the steel plants, on a quarterly basis.

(ii) Soft coke: The movement of soft coke by rail is restricted to only those consumers who are sponsored by the State Government authorities. Movement of soft coke by road is presently free from any restrictions.

(iii) Non-coking coal/hard coke: Despatches are effected against the quantities sponsored for the various consumers by the respective sponsoring authorities and as per the priority allocated by the Railways. Sponsoring authorities have been specified for different consumers, e.g. D.G.T.D. for foundries, chemicals, refractories, paper, rayons, etc.; Textile Commissioner for textiles; Tea Board for tea gardens; State Governments for brick burning, small scale industries, etc. Further a Standing Linkage Committee has been functioning in the Department of Coal since February 1973, specifically for reviewing the coal requirements of power houses and cement plants and linking the same to particular coalfields.

18. 3. 9 While in the allotment of wagons to priority users like defence, power plants and the cement industry - aided by their Standing Linkage Committee - an effort is made to meet the requirement, other users get varying treatment, and are often starved of coal supplies. In effect, the distribution of coal gets restricted by the limitations of movement capacity of the Railways.

18. 3. 10 Under the Essential Commodities Act, the State Governments now exercise control over the distribution of coal/coke within their own territorial jurisdiction. Despatches to major consumers which account for 80 per cent of the total consumption are made by the producers directly to such consumers. Despatches to small scale industries, of soft coke for consumers and slack coal to the brick kilns are made to the concerned State Governments or their nominated agents against the demands sponsored by them. Thus, in the case of non-coking coal/soft coke/hard coke, there are varying degrees of distribution control for different types of users. In most urban centres today, soft coke is distributed against ration cards.

18. 4 Organisation of control

18. 4. 1 The Office of the Coal Controller was created in 1945 to allocate coal to priority users, to monitor the utilisation of allocations made, and to advise Government on all policy matters concerning coal. The Coal Controller's organisation is a subordinate office under the Department of Coal. As of today it is no longer concerned with the distribution of coal but with certain residual functions.

18. 5. Review of the functioning of administrative control on coal

18. 5. 1 Though the CIL is the monopoly producer of coal, it does not have the authority to fix or change coal prices. While prior to nationalisation, coal prices were controlled formally, at present the control is administrative, the approval of the Central Cabinet being required for every change in the coal price. The CIL does not also have the authority to negotiate wages in the coal industry, all decisions in this regard effectively vesting with the Centre. Roughly 60% of the cost of coal is accounted for by labour costs. Determination of wages in the coal industry and adjustments in coal prices have never been simultaneous; every round of wage increase has been followed by a demand by the CIL for price revision, which has been conceded in the past between a year to three years after the wage revision. This has led to an increasing budgetary subsidy on coal.

18. 5. 2 Another aspect of the problem of coal pricing relates to differentials in the price for different qualities or varieties of coal. Apart from coking coal and non-coking coal, there is the difference between steam coal and slack coal. Variations in quality also stem from the ash content and content of volatile matter. At present, the prices of different grades of coal are based on the proportion of useful heat value of each. By and large, the price differentials on the basis of heat value are too narrow and do not truly reflect the scarcity value of better varieties of coal. For instance, Selected 'A' steam coal with low moisture, and with useful heat value exceeding 6620 kilo calories per Kg. has a price of Rs. 79. 50 per tonne, against Grade III steam coal with high moisture and with useful heat value ranging between 3770 and 4570 kilo calories per Kg. with a price of Rs. 49. 95 per tonne. This makes for improvident use of better varieties of coal even where lower varieties could do, a point which has also been emphasised by the Ministry of Energy, during discussions with the Committee. The Committee agrees with this view.

Functioning of the distribution system

18.5.3 Coal consumers are today divided into three categories. The first category, viz., the Railways, Defence, steel plants, power plants and the cement industry are entitled to get their requirements in full. All other large consumers fall into the second category. They do not have powerful sponsors and have to operate through agents, and their requirements are not generally met in full. The third category of consumers, namely, housewives, get their supplies from traders in soft coke, while brick kilns and small industries have to depend on "agents" to procure the despatches of coal. These supplies are uncertain, and State Governments have to step in and regulate distribution of soft coke from time to time, under the Essential Commodities Act. The system has not worked well in the past.

18.5.4 The first category of consumers frequently fall behind in payment. Apart from irregular payments, they also make arbitrary deductions. The arrears of payments due to Coal India are quite large (Rs. 44.56 crores as on 31.8.1978 excluding amounts under dispute which total Rs. 43 crores) and nearly one-third of the arrears are between six months to 36 months old. Coal India is not in a position to cut off supplies to such defaulting customers as steel plants, power houses, etc.

18.5.5 The second category of consumers have a just grievance, and this point has been repeatedly emphasised to the Committee. Following the oil price hike in 1973, many large industrial firms in Western India were either coerced or were persuaded or voluntarily undertook to change over from oil to coal as their primary fuel. However, after conversion of their boilers for taking in coal as the feedstock, coal supply to them has been highly irregular and inadequate. These firms have no redress.

18.5.6 Neither the coal industry nor the Railways have given much attention to the third category of consumers. Hence, the emergence of a black market in coal. The Committee has received numerous representations, both from the trade and from associations of consumers, in regard to non-availability of coal at officially announced prices, arising from the absence of priority for rail movement. The black market is supplied with coal in a number of ways. First, there is apparently considerable pilferage from the mine heads. For instance, in the eastern coal-fields, the output has officially fallen by about 30 per cent this year, but it is stated that large quantities are carried away by trucks, this quantum not being accounted for in official production data. The second point of pilferage is at the transhipment points or during coal movement by Railways in open wagons. Thirdly, there has emerged, as earlier in steel, a class of consumers masquerading small scale industrial units or other indenters who obtain allotments and sell coal in the black market.

18.5.7 The existing legislation on coal, by way of the Coal Mines (Conservation and Development) Act of 1974; the Coking Coal Mines (Emergency Provisions) Act of 1971; and the Coal Mines (Taking Over of Management) Act of 1973, are all redundant now, in view of the nationalisation of the coal industry. The administrative control on the coal industry makes the control aspect of the above statutes redundant. The subsidies now granted through cess/excise collections could also be made a direct charge on the cost of coal. Similarly, the Colliery Control Order of 1945, currently under the Essential Commodities Act of 1955, is also redundant.

18.5.8 The Committee feels that after nationalisation of the coal industry, and the pattern of coal allocation and distribution which have evolved, the Coal Controller's organisation does not have any really useful function. The Coal Controller does not "control" any aspect of coal; nor is he concerned with the planning or development of the industry. The office of Coal Controller should be merged with the CIL*.

18.5.9 The boilers in most power stations today have been designed to take in high ash coal. But sometimes the "middlings" supplied by the coal washeries - for which these power boilers were specifically designed - turn out to be considerably below specifications because of steady deterioration in the quality of coal now getting mined, which could not have been forecast, and the power stations find it difficult to accept such coal. The result is a wrangle; and while in the normal course, and with greater flexibility - as well as greater price differential - power stations could have themselves taken to blending middlings with better quality coals, the rigidity of the present system, arising from "linkages" worked out by third parties and abetted by the present pricing system, leads not only to avoidable argument but also, in practice, to power stations sometime refusing to accept middlings. As a result, in some cases, middlings are accumulating in the washeries, while the power stations have been successful in getting their entire coal requirements from further afield, because of the imperative of keeping the power stations working. The Committee would recommend that there should be an economic incentive to use slack coal and "middlings" and a disincentive to use scarcer varieties of coal.

18.6 Other problems in coal supply

18.6.1 Complaints about the quality of coal are of two types; first about the admixture of stone and dirt; and secondly, about the suitability of the coal supplied for a particular use. For example, power houses are generally dissatisfied with the ash content of coal. Thus, a seeming advantage of keeping the Departments of Coal and of Power under the same Ministry, namely, Energy Ministry, has in practice worked to the detriment of the coal industry.

18.6.2 The official view of CIL is that the distribution system is not of their making and they are not responsible about its shortcomings. On quality complaints, the CIL view is that the CIL can do little about the quality without better screening of coal, for which there is not enough price incentive.

18.6.3 While the Committee's primary concern is the problem of controls and subsidies, the Committee has also observed, during its enquiries, the problems arising from the existence of large monolithic organisations which tend to become bureaucratic. The Committee has also been impressed with the avoidable needs of co-ordination between diverse authorities, and the advantages of some degree of vertical integration. The Committee feels that there are considerable advantages in coking coal mines being made captive mines to be run by the steel industry, just as there are certain advantages - in terms of the "total energy" concept - in certain large industrial units having captive power plants. This would, inter alia, automatically resolve the question of realistic pricing of coking coal, and a co-ordinated view can then be taken by the concerned department in the light of labour productivity and wages in different steps and processes in the making of steel.

18.6.4 The Committee finds that the present system of loading of coal into rakes, at points suitable for the railways from the point of view of rake formation, involves a

* Dr. A.K. Ghosh feels that this is a matter of administrative reform.

high cost to the economy by necessitating truck movement and double handling, from the outlying mines to the point where rakes are formed. In this connection, the Committee would make two suggestions. A large number of ropeways in the coal belt are now lying unused. Secondly, many of these outlying mines do have railway lines. Some way should be found to minimise the total cost to the economy by, first, making full use of ropeways for coal loading; and secondly, by loading coal into wagons at the outlying fields and shunting them to a convenient control point for the formation of rake loads. For this, both wagons and light locos could be owned by the CIL, the wagons being "interchanged" at the point where rakes are formed. This would lead to both more efficient loading, less wastage (and pilferage) and lower total cost of coal movement.

18.6.5 The Committee also notes that schemes have from time to time been formulated for establishing "coal dumps" in major consuming centres, but that these schemes have never got off the ground because-

(a) of the expenditure involved in operating these coal dumps; and
(b) of the danger of pilferage, or fire, or other problems.

The Committee feels that improved service can be rendered to the consumer if ready availability of coal - at the official price, which may include the additional cost involved in maintaining coal dumps - were to be assured. The danger of pilferage or of fire is no greater at the dumps than at the pithead. At the dumps, bulk unloading and handling facilities could be provided so that these costs also could go down, and wagon turn round speeded up. Such dumps are particularly necessary in far-flung or hilly areas where in the absence of coal, forests are getting denuded today. The expenditure on running the coal dumps could be a legitimate burden to be passed on to the consumer, and averaged over the country as a whole, the cost is not likely to be very high. Transport to conveniently located coal dumps, in rake loads, should also suit the Railways, and should reduce the cost of movement. The Committee would suggest that coal dumps should be established at convenient centres, say, in all district headquarters and in cities with a population of more than 50,000.

18.6.6 The Committee would also like to comment on a point made by several State Governments. There are many small and relatively poor quality coal seams today in remote areas which are not worth while for a large organisation like the CIL to exploit. Such occurrences of thin coal deposits exist throughout the Himalayan belt, from Nagaland in the east to the hill districts of U. P. and Himachal Pradesh in the north, and also of lignite in Jammu and Kashmir, where the only available supply of fuel today is firewood. Non-utilisation of such locally available coal leads to the systematic cutting down of forests with serious adverse effects on ecology, resulting in floods in the plains below. Coal mining is reserved for the public sector under the Industrial Policy Resolution of 1956. The Committee feels that coal mining can be selectively allowed in the larger national interest, to -

(a) State Governments, or
(b) Co-operative soicieties (particularly in hill areas) supported or sponsored by State Governments.

This is likely to be of benefit to the people in remote hilly areas in making available an alternative fuel which may help to reduce the denudation of forests.

18.7 Coal subsidies

18.7.1 As noted earlier, the present pricing policy for coal involves a budgetary support (or a subsidy), at 1978-79 levels, of close to Rs. 140 crores a year. The presistent and heavy losses incurred by the CIL, and the odium attaching thereto would naturally demoralise the management, and adversely affect the efficiency of the organisation. A view could of course, be taken that the coal industry is a public utility, and that in the interest of keeping down the price level, coal should be available at a subsidised price to all consumers. The Ministry of Energy has, during discussions, pointed out to the Committee that this leads to wasteful and improvident uses of coal. The Committee is inclined to agree with this view, but feels that the pricing policy of coal cannot be left to be decided by a monopoly producer. It is a matter which should be looked at by an expert body (like, say, the BICP), after taking note of reasonable norms of efficiency, and a reasonable price differential as between different varieties of coal, with a view to conservation of the scarce varieties of coal.

18.7.2 There are two types of subsidies involved insofar as the coal industry is concerned. They are however not direct payments from the General Revenues but met from the net proceeds of collection of specific levies/cesses from the coal consumers. Releases from the fund are given against actual costs incurred on conservation, development and housing. One of these is operated through the Coal Mines (Conservation and Development) Act, 1974 and the second under the Coal Mines Labour Welfare Fund Act, 1947.

18.7.3 The Committee finds that the total disbursement of subsidy to coal mines, over the past three years, under the schemes of assistance under the Coal Mines (Conservation and Development) Act, including the subsidy for sand stowing and protective works, has been quite small, as noted below:-

	(Rs. crores)
1975-76	15.0
1976-77	6.2
1977-78	15.9

18.7.4 If proper stowing, as required under rules, were to be undertaken, the expenditure would be significantly higher. The expenditures under various heads admissible for assistance under the Coal Mines (Conservation and Development) Rules of 1975 have been estimated by the CIL to rise from Rs. 67 crores in 1978-79 to Rs. 182 crores in 1983-84. The cost of stowing operations alone is calculated to increase from Rs. 4.50 per tonne in 1978-79 to Rs. 9.0 per tonne in 1983-84. These expenditures are deemed essential, but the present cess rates cannot cope with such outlays; and unless these expenditures are made a charge on the coal user, such necessary outlays would either not be made or would involve a further subsidy from the budget, for the users of coal. The Committee would suggest that the existing subsidies on sand stowing and other similar development works should be met either by increasing the cess or by increasing the coal price, and making sand stowing a part of the normal operational routine.

18.7.5 The collections under the Coal Mines Labour Welfare Fund Act, over the past three years have been -

	(Rs. crores)
1976-77 (RE)	26.0
1977-78 (RE)	26.4
1978-79 (BE)	26.4

Though lately, the CIL has stepped up its welfare activities, the Committee has been informed that funds to the tune of Rs. 13 crores, intended for assistance in housing, are lying unutilised.

18.8 Evidence received by the Committee

18.8.1 In the course of its investigations and enquiries, the Committee has received a series of representations from the Coal India Limited, from State Governments, from organisations and associations of industry and trade, from small traders dealing in coal and from the body of consumers. Some of the views of the CIL have got reflected in the points made earlier. The Coal India has emphasised the significant wage increases since nationalisation, the increased output of coal, the low price structure of coal and the inadequate price differential between different grades of coal, and its helplessness in regard to actual distribution which depends on the ability of the Railways to move the coal as required. In fairness to the Railways, they have indicated that apart from temporary bottlenecks, the Railways have generally succeeded in supplying wagons as per requirements, one of the problems being the time taken in loading and unloading which reduces the turn round period of coal wagons. Some State Governments have referred to the problem indicated in paragraph 18.6.6, and have suggested relaxation of the present policy in regard to coal mining in order to solve the fuel problem in distant far-flung and hilly areas. Some State Government undertakings have also indicated that they have of late solved their coal supply problem only by resorting to the practice of nominating an agent for despatch of the coal required by them. The coal trade has complained of the large number of administrative regulations and controls over coal price and distribution and have suggested inter alia that there should be an independent organisation to act as a link between the coal producers and the Railways on the one hand and the coal consumers on the other; that similarly, there should be an independent agency charged with the responsibility of fixing the grade and quality of coal and the prices thereof; that there should similarly be inspection of the quality of coal by an independent body; that there should be a way to compensate the consumers for short deliveries by the Railways which arise due to pilferages on the way from open wagons; and that there is need, in general, for attention to the problems both of availability of coal of requisite quality and the transport and distribution of coal. Many consumers, including representatives of small industries have complained of the inadequacy of rail movement as also of the difficulty of getting wagon allotments for coal, leading to fairly heavy dependence on truck movement of coal at high cost.

18.8.2 Many of these issues have, one way or the other, been noted in the assessment given by the Committee earlier on the coal problem. The Committee would only like to emphasise the need for greater reliance on the price system, and for a better overall system of transportation and distribution with a view to minimising the overall cost to the economy, on the lines already suggested.

Chapter 19

STEEL

19.1 Introduction

19.1.1 India has rich and abundant iron ore, and plenty of coal though unfortunately relatively little of prime quality coking coal. The available coal has also a very high ash content. Notwithstanding the above limitation, India has a natural advantage in the matter of steel production. Many other ores, in particular manganese and chrome, required for the production of different qualities of steel are also available in adequate quantities.

19.1.2 The growth of steel production in India, however, has not been as fast or as smooth as one may be led to expect from the natural advantage of steel production in India. The output of steel in a few bench-mark years, is given below:

Table I

Output of Steel

(in million tonnes)

Year	Ingot steel	Saleable steel
1950-51	1.437*	2.242
1955-56	1.673*	2.785
1960-61	3.418	5.333
1965-66	6.526	5.640
1970-71	6.258	6.062
1975-76	8.262	7.502
1976-77	9.680	9.295
1977-78	8.424**	8.109

Source: Ministry of Industry - Bulletin of Industrial Statistics-July 1977 - for years upto 1976-77 Department of Steel - for 1977-78.

* Relates to calendar year

** Relates to only the integrated steel plants.

19.1.3 The capacity and output of steel in 1977-78, accruing from different plants, is briefly indicated below:

Table II

Gross block and Steel capacity of main plants

1	Value of gross block as on 30.4.1978 (Rs. crores) 2	Rated capacity of ingot steel (1978-79) (in million tonnes) 3	Output of ingot steel (1977-78) (in million tonnes) 4
1. TISCO	438.51*	2.000	1.968
2. IISCO (taken over w.e.f. July 1972)	219.41*	1.000	0.651
3. Rourkela Steel Plant (commissioned in Feb.1959)	503.58	1.800	1.409
4. Bhilai Steel Plant (commissioned in Oct.1959)	834.61	2.500	2.371
5. Durgapur Steel plant (commissioned in Dec.1959)	301.67	1.600	1.092
6. Bokaro Steel plant (commissioned in Oct.1972)	1312.17	1.700	0.933
Total	3609.95	10.600	8.424
7. Mini Steel plants	250.00	2.880**	1.169

* as on 31.3.1978
\+ Includes capital works in progress.
** as in 1977-78.

19.1.4 The steel industry also encompasses several downstream industries, which supplement the production of usable finished steel items by the integrated steel plants. For instance, steel sections are also produced by the rerolling industry which supplements the production of rolled steel products like bars, rods, wire rods, light sections and other profiles, wire-drawing mills covering another downstream activity, and manufacture of tin plate and cold rolled strips. Besides the above, ferro-alloys are also deemed to be part of the steel industry. The level of activity in these downstream units depends on the state of demand for these products

and has been fluctuating from year to year. The following table gives the present (1977-78) capacity of these other activities in the steel spectrum, in the organised sector.

Activity	Number of Units	Capacity (lakh tonnes)
1. Re-rolling*	200	38.00
2. Wire-drawing	72	7.38
3. Tin Plate**	2	2.20
4. Strips	28	2.23
5. Ferro-alloys	21	4.95

* In addition there are around 1200 re-rollers in the small scale sector.

** Excludes Rourkela Steel Plant which also has a tin plate capacity of 2 lakh tonnes.

Source: Ministry of Steel & Mines - Annual Report, 1977-78.

19.1.5 Besides, mild steel and its products, sophisticated types of steel like alloy, tool and special steels are also produced in the country. There are two public sector plants, which produce special steels. One is the Alloy Steel Plant, Durgapur, and the other, Visveswarayya Iron and Steel Ltd., Mysore (which has also been restructured to produce special steels). The capacity of these two units is currently 280 thousand tonnes. The Salem Steel plant, under construction, will add to special steel capacity in the public sector. In the private sector also 6 units have a capacity of 180 thousand tonnes of special and alloy steels, per annum.

19.2 Genesis of controls

19.2.1 Soon after the commencement of the Second World War, Government entered into a six-month contract with TISCO (from October 1939) for purchase of their requirements at prices prevailing in September 1939. The Steel Corporation of Bengal (SCOB) - later constituted into the Indian Iron and Steel Company (IISCO) - which came into production shortly afterwards agreed to accept the same price as paid to TISCO. This procedure was continued till June 1941 under the Defence of India Rules, 1939. In June 1944, the Order was extended to cover control over production and prices, and the title of the Order was changed to Iron and Steel (Control on Production and Distribution) Order. The Office of Iron and Steel Controller was also set up in 1944 to administer the Order. In addition, an Equalization Fund was established and this Fund was used to equalise the prices of high priced imported steel with low priced domestic steel. Separate retention prices were fixed for Government purchases and civilian requirements. Meanwhile, in February 1943, the Iron and Steel (Scrap Control) Order had been issued to regulate the price and sale of scrap.

19.2.2 The objective of the 1941 Order was to ensure supplies for defence purposes. The control over prices was partial and was used only for Government purchases as against sales for civilian use. Later (in July 1944), price control was extended to cover civilian requirements for steel also. After the end of the war, prices for Government and for civilian use were equalised in April 1946, and the licensing system relaxed.

19.3 Evolution and functioning

19.3.1 The Iron and Steel (Control of Production and Distribution) Order empowered the Iron & Steel Controller to fix maximum prices for different categories of iron and steel to be charged by producers, and registered stock-holders and stockists. The price paid to the producers was known as the 'retention price'. As indicated earlier, price control initially extended to only the supplies for the war effort. From July 1944, price control was widened to cover supplies to meet civilian requirements as well. Though separate retention prices were fixed for Government purchases and civilian supplies, uniform ex-works retention prices were fixed for the two producers from April 1946.

19.3.2 The price fixation had so far been ad hoc. On a representation from the producers, the question of price revision was referred to the Tariff Board in February 1948. The Tariff Board in its report (February 1949) recommended different ex-works retention prices for the two producers, and amalgamation of SCOB and IISCO (which was later implemented in 1953) so as to reduce the former's costs. Government did not agree to differential prices on the ground that this would reduce incentive for increasing efficiency but considered that common prices fixed should be such as would enable SCOB also to earn a reasonable profit. Retention prices were accordingly fixed in May 1949.

19.3.3 The steel industry was subsequently examined by the Tariff Board/ Commission in 1951, 1952, 1953, 1956, 1960 and 1962. The controlled price of steel was based on the recommendations of the Tariff Commission till about March 1962.

19.3.4 Manwhile, there were many criticisms of the functioning of the system. Based on the recommendations of the Raj Committee, price control was withdrawn in March 1964 on all categories of steel other than pig iron, billets, bars and flat products. In December 1964, bars were also removed from the ambit of price control. While sale-cum-retention prices for the controlled items viz. pig iron, billets, bars and flat products were notified by Government, those of decontrolled categories were fixed and announced by the Joint Plant Committee (JPC). Both the prices were on f.o.r. destination basis, with the JPC operating a scheme for freight equalisation. Prices of controlled categories of steel announced in March 1964 continued till March 1965 when a revised schedule of prices was notified.

19.3.5 In May 1967 a new scheme was introduced called the JPC Engineering Goods Exports Assistance Fund, to reimburse fabricators of engineering goods the difference between the domestic prices and the international prices of steel, and the quantum of steel incorporated in the engineering goods exported by them.

19.3.6 In May 1967, statutory control on price was removed and the responsibility for price fixation left entirely to the JPC, who acted in consultation with the Government in respect of all major price changes. From this point on, formal price control was replaced by administrative control over steel prices in as much as no price changes could be effected by industry without government approval despite the removal of formal controls.

19.3.7 The concept of 'dual pricing' was introduced in October 1973 for steel, on the basis of a recommendation of an Inter-Ministerial Study Group. It is noteworthy that Government approval was still necessary before the Steel Authority of India Ltd., (SAIL) - which had by then been formed - could introduce price changes. In effect, however, there was some flexibility at this time, because the posts of Steel Secretary and Chairman SAIL were held by the same official.

19.3.8 The new scheme envisaged supply of certain categories of steel required mostly by Government departments and public sector units at a relatively lower price (fixed after Government approval), the price of other categories being left to be fixed in relation to supply and demand so that the higher prevailing market prices could be mopped up by the integrated steel plants. Under the scheme (i) the pricing of plates, structurals and railway materials continued to be under informal price regulation, any change in prices requiring the prior approval of Government; (ii) in the case of hot rolled/cold rolled sheets, coils and skelp, the SAIL and the JPC were authorised to fix prices after informal consultation with the principal user Ministries i.e. the Departments of Industrial Development and Heavy Industry; and (iii) prices of semis, bars and rods, wire rods and galvanised sheets were left to be fixed from time to time by the main producers under the aegis and control of the JPC and SAIL, within the limit of landed cost of similar imported material, with further freedom to vary stockyard prices depending on market conditions. The scheme also provided for working out a 'retention price' to the plants taking into account costs, productivity and investment. Recommendations in regard to the 'retention price' norms were made by the Bureau of Industrial Costs and Prices. The difference between the sale price and retention prices fixed was required to be funded and deposited with SAIL, for reinvestment and replacement. Withdrawals from the Fund could only be made for approved schemes, in consultation with the Planning Commission. This system has since been discontinued.

19.3.9 The system of dual pricing carried its own seeds of destruction, the price of de-controlled items rose in relation to those of the controlled ones. There was pressure from the producers on the Government for price revision of the controlled categories. Also, as a result of the revival of public sector investment, there was a large increase in the demand for the controlled categories of steel and shortages reappeared by 1977-78. Misuse of steel began to be reported. For example, plates, the prices of which had been kept low, started being used for purposes for which plates were not necessary, and the prices of the controlled varieties had to be increased while the prices of the de-controlled varieties had to be prevented from further increase. In June 1978 the freedom of the producers to vary stockyard prices in response to market conditions was withdrawn. In order to help small scale industries, a new scheme was evolved, and the f.o.r. prices for ex-plant delivery were generally raised making stockyard prices only marginally higher (by an average of Rs.40 per tonne) than f.o.r. prices delivered ex-plant. These prices continued to be uniform throughout the country. The

prices of some of the major categories of steel, as of April 1 in each year, are indicated below for the period 1963-78:

Table III

Prices (f.o.r.) of certain steel categories, 1963-78
(as of April 1 each year)

(Rs. per tonne)

	1963	1968	1973	1978	30.6.78	Index 30.6.78 (base 1963=100)
Plates	784	900	1263	1541	2237	285
Structurals	765	800	1120	1377	1945	254
Sleepers	556	770	1078	1557	1557	280
Rails (75 lbs.)	620	740	810	1301	1326	213
BG Wheels	-	1356	2039	3285	3285	-
HR coils	804	1000	1321	2020	2367	294
CR coils	884	1200	1820	2705	3449	390
Skelp	804	945	1350	2196	2477	308
Billets	502	640	1059	1599	1730	345
Light bars	665	790	1126	1769	2130	320
Wire rods	665	790	1111	2150	2150	323
GC Sheets (16-20 G)	910	1565	2285	3040	3800	418

19.4 Distribution and other controls

19.4.1 From 1947 to 1964 there was centralised control (through the Office of the Iron & Steel Controller) on production, distribution, pricing, import/export and also creation of additional capacity for steel production though in between there were periods of relaxation over certain items of steel. The indenting of steel was based on quota certificates and subjected to licensing by the Iron & Steel Controller. (This system continued until 1964.)

19.4.2 The system of distribution of steel on the basis of quota certificates, however, did not work satisfactorily and in 1962 Government appointed an independent Committee (the Raj Committee) to go into the problem of steel distribution and the working of Iron and Steel control. The Committee recommended decontrol of Iron and Steel, setting up of a Joint Plant Committee (JPC) and a Steel Priority Committee (SPC). Government accepted most, though not all, of the recommendations of the Raj Committee. Most categories of steel except flat products (and a few other categories) were decontrolled. The JPC and the SPC were constituted in 1964, and the entire work of planning, monitoring, production, allocation and despatches of steel was entrusted to the JPC. This body consists of representatives of the main producers and the Railways and functions under the Chairmanship of the Iron & Steel Controller. Since its inception in 1964, the

Committee introduced the system of indent planning. The SPC is headed by the Steel Secretary and the Iron & Steel Controller is its Member-Secretary. The Committee used to decide the quantum of supplies to be made to priority consumers so far as their requirements of scarce categories of steel were concerned.

19.4.3 With the progressive improvement in the availability, control over other categories was lifted from time to time, and finally, statutory control over the price and distribution of all categories of steel was lifted from May 1967. Prior to 1969 the SPC used to allocate only flat products, as the other categories were relatively freely available. Since 1969, most of the other categories produced by main steel plants also came under the purview of the SPC. A detailed time-table was prescribed by the SPC for receipt of demands, allocations through reserved quota for priority demands and matching sections, and supplementary allocation to cover excess availability. To suit the quarterly demands received by the SPC, the rolling programmes of the main producers were finalised in consultation with the producers. The producers were often advised to change their rolling programme to suit the demand pattern, and no deviations from these programmes were ordinarily permitted. This re-introduced a strict administrative control on the production of steel by the main producers. With the formation of the Billet Re-rollers Committee and Tinplate Producers Consultative Committee, a similar system of allocation was introduced for re-rolled products and tinplates also.

19.4.4 In 1970, the scarcity conditions developed for a majority of steel items. A regulatory control was imposed on the items to be distributed through the SPC. Under this system, the consumers were to book their demands freely on the producers, but the supplies were restricted to the extent of priority allocation made by the SPC and enforced through the executive orders of the Iron & Steel Controller.

19.4.5 During the seventies, the output of main steel plants started picking up and thereby the availability of steel for the home market increased. There was also a lot of criticism from the industry on the long time-gap between ordering and supply of steel through the SPC system. With a view to utilise the available wagons in a better manner, the Railways insisted upon movement only through rakes and half rakes. All this called for a review of the system of distribution of steel through SPC. The Steel Authority of India Ltd. (SAIL) which had by then been established undertook a number of studies in steel distribution. The results of these studies were revealing. It was found that the bulk of steel went only to about 800 major customers located at 55 major centres. From 1973, therefore, a number of changes in the distribution system were then introduced in consultation with the SAIL and the JPC. These are mentioned below:-

(i) Only the major 800 units were to be considered for indent planning and supplies through JPC. All the rest were directed to collect material from stockyards on 'cash and carry basis'. SPC allocations were to be made only for forging quality semis and plates.

(ii) A ceiling was fixed on indenting so as to reduce the heavy backlog of orders on the books of producers.

(iii) Indent planning and order booking were given up for others.

(iv) Dual pricing system was introduced and market premiums for non-priority categories were mopped up by increasing JPC prices for the open market.

(v) Supplies in loose wagons were drastically cut down at the instance of Railways.

(vi) A number of customer contact officers were appointed to collect demands from industries and to give better service to the customers.

19.4.6 As production picked up gradually, the SPC decided in May 1974 to allocate steel on a six monthly basis. In view of increased availability it was felt in December 1975 that the two remaining items which were being allotted on the recommendation of the SPC should also be removed from its purview and accordingly, this was done.

19.4.7 With a view to help the actual customers and to ensure that the requirements of all users are, as far as possible, fully met, some changes have been made in the distribution policy of iron and steel during the last one year. These are —

(a) Supply of plates, structurals, hot rolled sheets/coils and cold rolled sheets/coils is made to actual users with private Railway sidings in wagon loads at the stockyard price minus the handling charges.

(b) Subject to certain conditions like selection of destination, nomination of a single agency to make suitable financial arrangements etc., a group of consumers can now take supplies of pig iron in rake loads directly from the plants.

(c) Small scale units whose past offtake has been 200 tonnes for a quarter or who are likely to take 200 tonnes per quarter currently can have direct supplies of iron and steel materials from the stockyards of Hindustan Steel Limited.

(d) Supplies to State Small Industries Corporations have been stepped up from the plants so that more and more of the requirements of the users in the small scale sector may be met by these Corporations.

(e) As shortages developed in certain scarce categories of iron and steel like BP/GC sheets, CR sheets, etc., formal control was re-introduced in April, 1978 in respect of these items requiring end-use declaration by the consumers, and preventing the sale or disposal of steel by the recipients of these varieties of steel.

19.4.8 As far as the latest policy on distribution of steel is concerned, the guidelines issued in May 1978 - over and above the salient features indicated in the

previous para - are briefly as follows:-

(i) Defence departments, Railways and Small Scale Industries Corporations (SSICs) are permitted to place orders for direct despatches from the plants.

(ii) Government departments/undertakings and DGTD units also can place orders for direct despatches provided the quantities form a rake load, the relaxations being made lately for even wagon loads being so ordered where the indentors have railway sidings, provided that payment is made for such despatches at stockyard prices (less Rs. 24 per tonne). The categories so permitted for direct ex-plant deliveries are hot rolled plates/sheets/coils; cold rolled sheets/coils; structurals; and bars and rods.

(iii) Priority is accorded to allocations for export production as certified by the Engineering Export Promotion Council and the Iron & Steel Controller.

(iv) The despatches from the plants to the above categories are subject to restrictions as may be placed by the Railways, from time to time. All parties whose requirements are not covered in the categories (i) to (ii) above are to draw their requirements from the nearest stockyards. To the extent that stockyard prices and ex-plant prices have lately been very nearly equated, except for a very small margin of about Rs.40 per tonne on an average as stockyard handling charge, the latest policy would make steel available to all users at roughly the same price throughout the country.

19.5 Form and content of the Iron & Steel (Control) Order

19.5.1 The extant Iron & Steel (Control) Order, 1956 under the Essential Commodities Act, is in five parts. The Order extends to all categories of iron and steel specified in the Schedule, including 'defective and scrap' steel and 'ferro alloys' - the last named being added by separate notification in March 1967. There are also provisions relating to securing of information, inspection etc.

19.5.2 The substantive provisions of the Order which enable the Controller to fix prices of iron or steel items and scrap, impose restrictions on the purchase or sale of iron and steel or scrap are not at present in operation. Information obtained from the Department of Steel reveals that the provisions of the Order relating to ferro alloys particularly those relating to price fixation, use etc. have not so far been invoked at all.

19.6 Assessment of control over price

19.6.1 It has already been noted that statutory price control on steel has been relaxed since 1967. Nonetheless, there exists fairly tight administrative control on prices of steel. The Tariff Commission's objective at an earlier stage was to enable the TISCO and IISCO to earn a specified return on their gross block. For categories of steel produced by both the

plants, prices were based on the works costs and overheads of the higher cost plant. For other categories prices were worked out so as to give each plant its required average price. The Commission was aware that such a price structure might be inconsistent with the pattern of output dictated by demand and by priorities.

19.6.2 The proceedings of the Tariff Board, renamed Tariff Commission in 1951, were quasi-judicial. Producers, traders and consumers were given a full opportunity to be heard; public hearings were held for the purpose. Reports of the Tariff Commission were published, and they gave not only recommended prices but also the underlying reasoning. Though the government generally allowed price increases below those recommended by the Tariff Commission, the entire process of price fixing through the Tariff Commission was a public one.

19.6.3 Because it was a public process, it was slow. Tariff Commission enquiries took two to three years : the average period was so long that costs could escalate significantly in the interval and ex-post, profits were likely to be below those aimed at by the Tariff Commission even if its recommended prices were accepted.

19.6.4 In theory, the prices of decontrolled products have since 1967 been fixed by the Joint Plant Committee, consisting of producers' representatives, in consultation with the Government. In practice, only the initiative for price increases has come from the producers, with the decision to allow price increases still resting with Government. As a matter of fact, the approach to price fixation has, on the whole, been ad hoc and not based on any scientific analysis of costs.

19.6.5 To give one example of the way the system worked, while granting an increase of Rs.75 per tonne from January 1970, the Government felt in view of representations from the producers in regard to cost escalation, the need for a comprehensive cost study. Since there was no statutory price control, the Steel Secretary asked the Economic Adviser in the Ministry to make the investigation. The Economic Adviser apparently did not have the staff or the time and did nothing. The situation drifted until April 1972 when all the producers claimed large price escalations. Pressed for action, the Steel Secretary appointed a small group consisting of a Joint Secretary, the Economic Adviser and the Financial Adviser. The group reported in August 1972. It had taken account of only escalations since 1970, and the producers claimed with some justification that the prices were below costs in 1970. So the Steel Secretary expanded the group to include representatives of the Planning Commission, the Economic Affairs Department and the Cost Accounts Branch of the Finance Ministry. He asked the group to report by the end of November 1972. It was mid-September before the group could be convened and could decide on what information to call for. From then on, the Chief Cost Accounts Officer (CCAO) of the Finance Ministry did all the spade work; the rest just raised new questions which called for fresh information each time. The producers' cost statements were in by the first week of December. After a month's work the CCAO found that raw material consumption per tonne varied widely between plants and over time. At a loss what to do, he got a Senior Industrial Adviser co-opted on the group to help him. Meanwhile, first the Minister and then the Secretary changed, and so did the thinking at the top. Over 1970-72 there was a general impression that whatever price increases were

granted to the HSL would be swallowed up in wage and other cost increases. While, therefore, between January 1970 and March 1973, the excise duty was raised from Rs.138 to Rs.296 a tonne, the ex-works realisation rose only from Rs.708 to Rs.757. By early 1973, however, the idea had gained ground that if JPC prices were kept below market prices the difference only went to traders. Hence in March 1973 the new Steel Secretary gave the price working group a shakedown, told it that it must report quickly and not get bogged down in cost details. The group submitted its report in July 1973. It recommended certain price increases and urged the Government to mop up the profit that TISCO and IISCO would make. It also recommended a full-fledged cost study by a competent authority. And it asked the Government to introduce a system of dual prices that would mop up profits made by middlemen.1/ It had taken more than $3\frac{1}{2}$ years for the experts to report on this matter.

19.6.6 Several aberrations have arisen in the control over steel prices exercised formally in the past, and informally of late. These are indicated below:-

(a) Steel is not a uniform product, and different steel products have different uses. In the past, the dual pricing system led to a disproportionate burden on some categories of consumers as a result of the low prices of steel categories required by Government. As would be seen from data given in Table III in para 19.3.9, between April 1963 and June 1978, the price increase for different categories varied from 113 per cent to 318 per cent.

(b) The capacity for different products gets generally fixed at the stage of planning and construction of integrated steel plants, and while there is a marginal leeway between the rolling of different products, by and large the product-mix of the integrated steel plants is fixed. Two issues arise in this connection. First, if the pricing of certain categories is kept depressed, every effort is made at the planning stage to avoid the manufacture of such items, and this is within the capability of the steel plants insofar as minor expansions and rationalisation schemes are concerned. Secondly, the cheaper varieties tend to get misused, or used even where they are not strictly required, as for instance in the matter of plates or structurals.

(c) A consequence of low pricing of certain categories of steel, where there is also a shortage, is also likely to lead to black marketing in steel. The ratio of outstanding orders to the output of different steel categories has varied considerably over time, but the shortage has been compounded by exaggerated indents merely because of the relative cheapness of certain steel categories.

(d) A more important problem that arises stems from the steep escalation of replacement costs in the steel industry. This problem has been referred to generally in Chapter 4, giving the Approach of the Committee. In the steel industry, the problem becomes acute because the resources

---

1/ Ministry of Steel, Report of the Inter-Ministerial Group on Steel Prices, Delhi, 1973.

required for the development of the steel industry, as per the requirements of growth, are so large that there is strong possibility of the funds required for the expansion of the steel industry not becoming available. Even though, in a sense, the collection of excise duty on steel does imply the raising of resources from the steel industry, the excise duty gets merged into general revenue which is not necessarily available thereafter for steel expansion. The collection of excise duty on steel (including steel products) amounted to Rs.304 crores in 1978-79 (Revised Estimate). Even though this is a sizeable amount, it obviously cannot — even if wholly earmarked for steel expansion — be adequate for the order of investment funds required. It implies that such expansion as might take place would really involve a draft on the community, and that resources required for other sectors would be reduced to that extent, while the users of steel get the material at a relatively cheap price.

(e) While prices of steel produced by the integrated steel plants have been regulated, there has been no control over the price or distribution of steel produced by the mini-steel plants. During a period of shortage of steel and high prices in the open market, this led to a mushroom growth of such units. Production of steel from scrap by electric arc furnances is a costly affair, and also makes a high demand on power. As many as 206 such units have been licensed (as 1.1.1977) with a capacity of 4.364 million tonnes; of these 120 units have been set up with a capacity of 2.88 million tonnes. When steel production from the integrated steel plants caught up with demand in 1976-77, many of the existing units had to close down, and Government had to give special excise concessions, relief on import duty on scrap and also assistance on liberal terms from financial institutions for diversification. This development increased the problems of the integrated steel plants in expanding capacity on a more economic basis.

(f) The freedom given to the JPC under the dual pricing system at least had the merit of allowing the steel plants to mop up the profit that accrued to middlemen from the black market premium on certain categories. Of late, this freedom having been denied, there have again been reports of a black market premium on certain scarce categories of steel during 1978.

19.6.7 The Committee would also wish to note a special problem in regard to which it has received representations from both State Governments and industry and trade in the Eastern Region, in regard to the sale of steel at uniform prices throughout the country. This has been a policy followed from the inception, and has led to the industrialisation of many areas not favoured with the locational advantage of having this important raw material. The authorities of the States in the Eastern Region have represented that equalisation of the price of steel takes away the locational advantage of the engineering industries in the Eastern Region, while similar advantage does not accrue to them in regard to other essential raw materials.

19.7 Assessment of control over distribution

19.7.1 Control over distribution of steel has never worked satisfactorily and the emergence of a black market in various categories of steel during the period of shortages is testimony to this. The distribution controls, introduced during war time, had worked badly all along. The Report of the Raj Committee referred to earlier had led to decontrol of steel and also to devolution of two of the functions of the Iron & Steel Controller to the two new organisations namely the SPC which was set up to allocate steel in accordance with the recommendations of the sponsoring authorities in advance of production, and the JPC which was to allocate orders among the producers.

19.7.2 In the representations made to the Committee, the trade in iron and steel has suggested that as of today only a very small part of the total supply of steel passes through the trade. The following Table, giving the flows of finished steel from different producers to different sectors or users of steel would indicate how, as far as the integrated steel plants are concerned, very little of the steel required either for construction or for small scale industries moves through the trade.

Table IV

Flows of Finished Steel 1976-77

(Million tonnes)

From / To	Major plants	Mini plants	Re-rollers*	Imports	Trade	Total
1.. Government Departments	1.0	-	-	-	-	1.0
2. Public Enterprises	0.9	-	-	-	-	0.9
3. Large Industry	1.7	-	-	0.2	-	1.9
4. Small Industry**	0.4	-	-	-	0.6	1.0
5. Construction	0.1	-	-	-	2.2	2.3
6. Trade	0.8	0.7	1.3	-	(-) 2.8	-
7. Exports	1.0	-	-	-	-	1.0
8. Others	0.3	-	-	-	-	0.3
Total:	6.2	0.7	1.3	0.2	-	8.4

* Re-rollers get their steel ingots from major plants and mini plants.

** Includes allocations through SSICs.

19.7.3 The above figures are only approximate and do not indicate the final flow to all consumers. Nonetheless, it would appear from the above table that although a third of the total quantum of steel consumed in the economy in 1976-77 passed through traders, most of their supplies were obtained from the mini plants and the re-rollers,

and not from the integrated steel plants. Leakages from Government depots and over-indenting by other large consumers may have supplemented the supplies obtained officially. It would also be seen that the offtake of the SSICs from the main plants has been fairly small, the small industries obtaining a large part of their requirements from the trade.

19.7.4 In most years, the small scale industry has indented for much larger quantities of steel than it has been able to get and in fact, there have been widespread reports of leakages of steel from allocations made to small scale units. Hence, arose the idea that the SSICs should be used to identify the genuine requirements of small scale industrial units, screen their demands and meet their requirements of steel. However, in practice, over the past decade or so, this has not transpired. Investigations conducted by the Committee into the small units and the files of the Iron & Steel Controller reveal that small units have two major problems. First, they are generally short of capital and are, therefore, unwilling to hold large stocks. Hence they prefer to get steel off the shelf as and when they require. If they suddenly get a large allotment they prefer not to hold the entire quantum but to sell off a part and buy their requirements in small quantities later. Even in genuine cases, for functioning small scale units, this has been a major problem in their lifting large quantities of steel at one time. Secondly, most small units require a large number of different categories of steel and, therefore, would prefer to have obtained their supplies from traders who can supply all matching sections and not only a few categories of steel required by them.

19.7.5 In meeting both the above requirements, the SSICs suffer from crucial disabilities. Being public sector organisations, they have certain limitations and they find stock holding of different categories of steel awkward. Successful stock holding requires selling some items at a profit and recouping losses on certain other categories of goods. The SSICs get criticised when they make a profit and invite audit enquiries when they make losses. As a result, the SSICs are not successful in meeting requirements off the shelf. This also means that they cannot provide matching supplies.

19.7.6 Any institution which caters exclusively to the requirements of the small scale units, therefore, faces somewhat uncertain and unstable market. The costs of the SSICs are also high and there have been criticisms by small scale industries of the distribution margins of all State trading organisations. It is of importance that SSICs improve the quality of their service, and reduce the service charges through increasing their efficiency so that the legitimate needs of the small scale sector are serviced, at a reasonable cost. Failing that their services would become not only unnecessary but even be a drag on the growth of small scale units. In any event, there are requirements of steel, e.g. for village industries and for construction, which only the trade can meet. The Committee feels the trade should have a bigger role in steel distribution which can be entrusted to the trade if market prices are close to the prices of steel as sold by steel plants.

19.8 Control over scrap

19 8.1 The current availability of scrap is estimated at around 2.7 million tonnes

as follows:

(a) Steel melting scrap	:	1.7 million tonnes
(b) Iron scrap	:	0.9 million tonnes
(c) Mill scrap	:	0.1 million tonnes
Total	:	2.7 million tonnes

19.8.2 The steel melting scrap is used mainly by the mini steel plants. The steel plants are at present disposing of their scrap through the system of auction through the Metal Scrap Trading Corporation (MSTC) - a public sector undertaking under the SAIL. The other major source of ferrous scrap are the Railways who also dispose of the scrap arisings through auctions. It is a reflection on the extent of control over steel prices that there have been occasions when Railway scrap material has been sold at prices much higher than those paid by the Railways for new rails. Prior to 1970, ferrous scrap used to be generally exported. Control over scrap was extended, and the import also canalised with the emergence of shortage of heavy melting scrap, especially since the steel produced by the mini steel plants is free of price control. However, with the increase in scrap availability and with the increase in steel prices to more realistic levels, there appears to be no compelling reason for statutory control in respect of ferrous scrap. It is also not clear as to why the import of scrap should be canalised since the facility of import may act as a moderating influence on domestic scrap prices. The Committee would recommend that import of ferrous scrap should be freely permitted under OGL.

Control over ferro alloys

19.8.3 As indicated earlier, ferro alloys were brought under the purview of Iron & Steel (Control) Order only in 1967, and so far these powers have not been invoked either to control the prices or the distribution of these alloys. Ten different ferro alloys have been indicated in the Iron & Steel (Control) Order. Of these, there is significant production in India only in respect of ferro-manganese, ferro-silicon and ferro-chrome. The control therefore exists as of today only on paper. These items have also been listed as essential commodities under the Essential Commodities Act of 1955, but no control orders have been issued under that Act.

19.9 Control organisation

19.9.1 Several authorities are involved in the control over production and distribution of steel and its pricing, and their responsibilities also overlap to a considerable degree. The responsibilities of the Iron & Steel Controller have gradually been whittled down, and the Iron & Steel Controller today has few control functions. The only task of the Iron & Steel Controller today is to monitor the use of steel by parties allotted scarce categories of steel, which in practice is not effectively carried out, and is perhaps not even feasible without a large control organisation which may be quite expensive. The Office of the Iron & Steel Controller, set up originally under the Control Order of 1941 and later under the Order of 1956, is at present an attached office under the Department of Steel with headquarters at Calcutta and with Regional offices at New Delhi, Kanpur, Calcutta, Madras, Hyderabad and Bombay. The Iron & Steel

Controller is supposed today to play an advisory role in the formulation of export and import policy, levy of customs and excise duties and other matters relating to the iron and steel industry. The Iron & Steel Controller is also the registering authority for the iron and steel based industries such as re-rollers, mini steel plants, wire drawing units, manufacturers of hot and cold rolled strips, ferro alloy manufacturers, pig iron units and scrap processing units.

19.9.2 The planning function of the Iron & Steel Controller as also the task of allocation of steel to various consumers has long since been taken away from this organisation. During the discussions that the Committee had with the concerned authorities, it transpired that the Iron & Steel Controller's office has few residual functions other than to service the JPC, of which the Iron & Steel Controller is the Chairman. While a monitoring authority would be necessary if the control were to be maintained, as indicated earlier, the present monitoring system is necessarily perfunctory. With the introduction of computerisation in the matter of demand assessment, there is need for re-orientation of the approach in regard to steel planning, and an old existing control organisation may not be the best suited to discharge this new responsibility. The Committee would, therefore, recommend that most of the functions of the Iron & Steel Controller's organisation could be transferred to the SAIL, the JPC and some residuary functions to the Ministry. The Iron and Steel Controller should therefore be disbanded*. The licensing of capacity in the steel industry should follow the recommendations made in Chapter 5 on Industrial Approvals, namely, certain industries may be totally banned, as for instance mini steel plants; certain industries may be allowed free expansion or diversification facilities without recourse to licensing; and certain other industries may be subject to licensing control for which the usual process of licensing may be followed, the Iron & Steel Controller's recommendatory functions being entrusted to the Technical Wing of the Ministry of Steel & Mines.

19.9.3 The Steel Priority Committee is an informal body which appears to be no longer necessary today, in regard to allocating steel to priority users.

Iron Ore Board

19.9.4 The Iron Ore Board was set up in January 1973 to act as an advisory body in respect of the planning and development of iron ore deposits in the country. One of the recommendations of the Board was the levy of a cess on iron ore for the development of the industry. The expenses of the Board were Rs. 50 lakhs in 1976-77, Rs.45.80 lakhs in 1977-78, Rs. 17 lakhs in 1978-79 (RE) and Rs.25 lakhs in 1979-80 (BE). These expenses include provisions for payments made for special studies initiated by the Board through specialised agencies. The Board has been a generally dormant organisation for quite some time. On the working of this Board the Committee on Public Undertakings (COPU) has observed2/ as follows:

> "The Committee however find that one of the functions of SAIL/Ministry is 'Development of input industries relating to iron ore etc. required

---

* Dr. A.K. Ghosh feels that this is a matter of administrative reform.

2/ 77th Report of the Committee on Public Undertakings (1975-76) (5th Lok Sabha),pp.89-90

* Dr. A.K.Ghosh feels that this is a matter of administrative reform.

mainly by the Steel Industry'. The Committee therefore recommend that Ministry/SAIL should clearly define the role of Iron Ore Board vis-a-vis that of SAIL so that there could be an effective coordination between the functioning of the Iron Ore Board and that of SAIL without any overlapping in functions and the various problems of the iron ore mines can be resolved in time and the Board can help in the development of mines, maximise production and streamline movement of iron ore for the better performance of the steel plants."

19.9.5 The Committee understands that Government has a proposal to enlarge the role of the Iron Ore Board and to convert it into a Mineral Development Board to advise Government on development of all minerals including iron ore. The Committee is of the view that the Iron Ore Board has no particular role to play, and should be wound up*; a decision on the other proposal being taken independently, on merit.

19.10 Subsidies relevant to steel

19.10.1 The Central Government Budget provides for an interest subsidy to SAIL/IISCO. The amounts involved during 1977-78 and 1978-79 are as follows:-

	(Rs. crores)	
	1977-78 (Actual)	1978-79 (RE)
SAIL	-	4.46
IISCO	4.10	-

Comments on such subsidies which are also given to other enterprises have been made separately in Chapter 11 on Subsidies. Suffice it to mention here that to the extent that such subsidies are a by-product of the pricing policy adopted by the Government, they should not be deemed as subsidies given to the enterprises but via the enterprises to the consumers of the product, in this particular instance, the users of steel. In principle, in any such assessment of the net impact on the consumer, the incidence of excise duty on steel becomes a relevant factor. In this instance, the profits plus the excise duty collection on steel would not be such as would suffice for the normal expansion of the steel industry; and on balance, the pricing formula for steel must be regarded as having an element of subsidy for the consumer of steel.

19.11 Options

19.11.1 Decontrol of steel is not a policy option which has any practical significance. For one thing, the SAIL would be virtually a monopoly producer, and being a Government undertaking, it would be unrealistic to assume that it can have total freedom in regard to investment and pricing decisions. The Committee would not favour this approach.

19.11.2 One has, therefore, to choose between full control and partial decontrol, in regard to the substance of the matter rather than the formal position. Administrative control by Government would constitute a control as much as formal control by way of statutory or notified pricing and distribution arrangements.

19.11.3 Full control over steel pricing and distribution would be not only unnecessary but also a messy arrangement. If past experience is any guide, a rigid control system should be avoided.

19.11.4 One pattern would involve a dual pricing system. In essence, it means that one part of steel output should be earmarked for the priority sectors at a price deemed to be reasonable, and the rest should be sold in the free market. Government should lay down clear and unambiguous guidelines indicating the priority sectors, the pricing pattern and the mode of delivery. To be successful, the priority sectors and the demands thereof should be strictly limited. Subject to these guidelines, the SAIL should be left free to decide at what prices to sell. It may be reiterated that for such a system to have any meaning, the priority sectors will have to be defined precisely, and restricted to strategic areas of the economy. Unless the total requirements of the priority sectors are kept down, the market system cannot operate effectively since most of the steel will get diverted to the so-called priority sectors. The requirements of such priority sectors should be spelled out productwise. The system would also work efficiently only if the gap between the price for the priority sectors and the market price for all other buyers is not too wide. Otherwise, there would be a strong incentive for leakages to occur. The Committee would suggest that to keep the total requirements of the priority sectors down to the minimum, only the defence and the export production may be accorded priority treatment. In case Government departments, public sector undertakings or specified industries claim to be put in the priority list, their steel consumption should be directly subsidised by the concerned Ministry. This would automatically keep down the subsidisation of steel consumption, since the grant of a direct subsidy is open to public gaze and criticism, whereas a covert subsidy by way of a concessional price does not attract public attention. In general, it is also observed that when a product becomes available to a user at a low price, the tendency is to use it inefficiently and wastefully. Any department which would like to subsidise the use of steel for any activity should be willing to subsidise its use from its budget so that Parliament can evaluate the cost and justification of such a subsidy. This scheme would operate much like the subsidisation of the use of fertilisers by a section of the farming population under the SFDA and similar schemes.

19.11.5 Insofar as the canalisation of steel import is concerned, there is clearly some justification for canalised import in respect of bulk items. Apart from the possibility of cheaper imports - and saving in freight costs in bulk shipments - to the extent that international steel prices are significantly higher than indigenous prices, the problem of "allocations" of indigenous steel can be avcided by pooling the price of indigenous and imported steel, which can be done only under a system of canalised import.

19.11.6 For all other items, particularly where the import of matching sections is required, the Committee would recommend a system of free import under the OGL. With world prices of steel higher than Indian prices for most categories, further accentuated by an import duty, there is no reason to "protect" the Indian steel industry by any type of restriction on import.

Chapter 20

NON-FERROUS METALS

20.1 Introduction

20.1.1 The Committee has examined the three major non-ferrous metals, aluminium, copper and zinc, which provide important inputs for a large number of industries. In view of the importance of these for the growth of electrical and general engineering industries as also metal based industries, the entire group "non-ferrous metals" was declared as an "essential commodity" in June 1957 enabling all non-ferrous base metals to be brought under the purview of the Essential Commodities Act as and when the need arose.

20.1.2 The Committee's interest in non-ferrous metals derives from the importance of the growth of output of base metals, and their ready availability at reasonable prices, in the interest of rapid growth of the economy.

20.1.3 All three metals have been subject to fairly stringent regulations. While distribution controls - quite comprehensive until recently - have been eased in the last few years, all the three metals have been subject to either administratively controlled or formally controlled prices.

20.1.4 The specific problems arising from the regulation of the three metals are somewhat different, though the effect of their periodic non-availability, as well as of the tight distribution control until recently, has generally been similar.

20.1.5 The three non-ferrous metals differ insofar as industrial licensing policy is concerned. Copper and zinc fall under Schedule 'A' of the Industrial Policy Resolution of 1956; and as such are reserved for future development in the public sector. Although aluminium falls under Schedule 'B' of the Resolution and, therefore, is open to both the public and private sectors, the Committee has been informed that further capacity for the metal in a big way is likely to be taken up only in the public sector, barring relatively small expansion of existing plants, mainly because of the enormous investments now required for the integrated development of bauxite mining, alumina production and aluminium smelting together with captive generation of power required therefor, making this industry highly capital intensive.

20.1.6 A common feature of the three non-ferrous metal industries has been a chronic and substantial under-utilisation of capacity due to various factors: non-availability of adequate power in the case of aluminium, delay in ore production in the case of copper, and technological and other teething problems in the case of zinc. Taking into account the installed capacity and assuming optimum plant utilisation it should be possible to meet a major part of domestic demand for all three metals, and particularly for aluminium and zinc from indigenous production, and the import gap should be only marginal. Our copper reserves being relatively smaller, a substantial part of the requirement will necessarily have to be met through imports.

20.1.7 Although there have been some similarities in the growth, development and problems of these three major non-ferrous base metal industries, there have also been important differences both in regard to the nature of the problems as well as the regulatory or control measures which have come to be used for each. These are therefore now dealt with separately for each metal.

20.2 Aluminium

20.2.1 Introduction

20.2.1.1 The aluminium industry in India came into being in 1943-44 with two smelters one at Asansol (West Bengal) and another at Alwaye (Kerala). The latter unit was initially based on imported alumina. The industry developed initially under the umbrella of protection. From an installed capacity of about 4,500 tonnes per annum in 1943-44 the capacity reached a level of 310,000 tonnes in 1978-79. Production, however, has been much below this level (179,000 tonnes in 1977-78) because of under-utilisation of capacity which has been almost entirely due to inadequate availability of power.

20.2.1.2 The consumption of aluminium in India, during the last 25 years has on the average increased by about 13 per cent per annum. The electrical industries, utensils manufacturers, transport and building industries are the major users of aluminium. The relative proportion of aluminium in different uses has varied from year to year depending on developments in the user sectors. The overall demand has also varied from time to time depending upon industrial activity in general and the programme of investment in power transmission in particular. The Working Group on Non-Ferrous Metals, which was set up for the Sixth Plan period (1978-83), has found that "a rate of growth of about 13 per cent is fairly representative of the pattern of demand during the past". The Group has nonetheless concluded that the overall demand will increase at about 10% per annum during the next decade, i.e. until around 1988.

20.2.1.3 The industry has been subject to formal and informal price and distribution controls from time to time, while its expansion has been regulated under the Industries (Development and Regulation) Act.

20.2.2 Price control

20.2.2.1 Informal price control on aluminium was first introduced in 1968. The 1967-68 Budget proposals increased the excise duty on aluminium from Rs.360 to Rs.1140 per tonne on ingots and from Rs.600 to Rs.1740 per tonne for products. It was expected - and announced in the Budget speech - that the additional levies would be absorbed by the aluminium producers. However, on a representation by the producers, the Government decided that only a portion of the increased excise duty need be absorbed by the primary producers, the remainder being passed on to the consumers.

20.2.2.2 In the 1970-71 Budget, certain steps aimed at rationalisation of the excise duty on aluminium increased the duty on aluminium by about Rs.300 per tonne on an average. This was accompanied by an exhortation to the primary producers not to revise their selling prices. However, the two large aluminium producers revised their prices unilaterally, and this led to the imposition of formal price control on aluminium for the

first time. In order to prevent such a price increase, the Aluminium (Control) Order, 1970 was issued in March 1970 under the Essential Commodities Act of 1955. Under the Order the selling prices of aluminium of the producers were frozen at the pre-Budget level. A special Working Group, headed by the Chairman of the Bureau of Industrial Costs & Prices (BICP), was appointed to look into the pricing policy for aluminium. Thus, formal control over the price of aluminium commenced after the producers increased prices following a hike in the excise duty.

20.2.2.3 In its report (November, 1970) the Working Group recommended uniform ex-factory prices for aluminium and aluminium products (excluding foils and extrusions) which were accepted by the Government in May, 1971. The controlled prices of aluminium were fixed at Rs.3990 and Rs.3970 per tonne for electrical conductor (EC) grade and commercial grade (CG) aluminium respectively. In order to mitigate the difficulties faced by the two smaller producers, namely, Madras Aluminium Company (MALCO) and Aluminium Corporation of India (ALUCOIN), owing to their higher production costs, certain excise rebates were allowed to them.

20.2.2.4 The producers of primary aluminium soon represented that costs of inputs had gone up, and asked for a revision of the controlled prices. In May 1973, the Government asked the BICP to review these prices. In its report of December 1973, the Bureau recommended an upward revision of aluminium prices by Rs.1090 per tonne. The recommendation of BICP was given effect to by the Government in May, 1974. However, the Government did not accept the other recommendation of the BICP, namely, that the ALUCOIN be taken out of the purview of price control on the ground that its costs were very much higher than, and out of line with, others.

20.2.2.5 In October 1974, the BICP was again asked to review controlled prices of aluminium taking into account the substantial increase in costs of inputs which had taken place. Some producers, in particular the newly set up public sector unit, Bharat Aluminium Company (BALCO) had also represented about the significantly higher costs of new units, particularly the capital servicing costs, as also the significant differences in electricity rates (with different Electricity Boards charging widely divergent rates for power) which made for a substantial difference in the cost of production, power being a major input in the process of aluminium smelting.

20.2.2.6 The BICP submitted an interim report in January 1975, and its final report in May 1975. In its interim report (January, 1975), the BICP recommended an increase of Rs.650 per tonne in the selling price of aluminium. After considering the report, Government allowed in March 1975 a price increase of Rs.404 per tonne.

20.2.2.7 While approving the increase in controlled prices of aluminium in March 1975 the Government had indicated that the issues relating to the development of the aluminium industry, power tariff, pricing, etc. should be discussed with all concerned authorities, and a suitable policy evolved. It was found on enquiry that apart from the power shortage, the shortfall in aluminium production was due to reluctance of the State Electricity Boards to supply power to the aluminium smelters on account of the extremely low rates for power earlier contracted with the Indian Aluminium Company (INDAL), the Hindustan Aluminium Corporation (HINDALCO), and the Madras Aluminium Company (MALCO). In May 1975, the BICP submitted its final report and worked out the selling prices of aluminium on two levels - based on full power availability and the

likely availability of power - and also recommended, for the first time, a completely new system of pricing, indicated in the following paragraph.

20.2.2.8 In order to ensure the supply of adequate power to aluminium smelters, at rates deemed reasonable for the Electricity Boards, a new formula for pricing was evolved. The power rates to be paid by aluminium producers were raised, with a suitable escalation formula. At the same time, in order not to escalate the price of EC grade aluminium required by the Electricity Boards, a dual pricing formula was evolved whereby the primary aluminium producers were required to supply 50 per cent of their output in the form of EC grade aluminium at "cash cost", i.e. without covering their depreciation, or return on capital. This quantum was designated as 'levy' metal and its price was controlled. The price to be paid to each producer was based on his "cash cost" of production, the final price to the user being "pooled". The balance of the output was allowed to be sold freely by the producers at the market price. To prevent diversion of the cheaper EC grade metal into uses other than the manufacture of electrical cables and conductors, the excise duty on 'levy' metal was raised sharply so that the market price of 'levy' metal was to be roughly equal to the expected market price of non-levy metal. The State Electricity Boards were given a direct subsidy of Rs. 3130 per tonne of aluminium used in power conductors purchased by them. This policy, which came to be known as the "integrated aluminium policy", was announced in mid-July, 1975. The power rates payable by the existing aluminium producers to the Electricity Boards were rationalised, involving substantial increases (by around 300 per cent on an average).

20.2.2.9 Inspite of the significant increase in power rates relevant for INDAL, HIDALCO and MALCO, the manufacturing costs of the different aluminium producers were still substantially different, as the power rates varied from 7 paise per unit to 12 paise per unit. Since a one paisa difference in the power tariff involved a cost difference of nearly Rs. 180 per tonne of aluminium, the revised power rates still involved a significantly higher cost for BALCO. This was quite apart from the significantly higher depreciation and interest cost of BALCO. Accordingly, the retention price for each producer was worked out separately in respect of the 'levy' metal on the recommendations of the BICP, the metal being sold to the cables and conductors manufacturers at a "pooled" price.

20.2.2.10 The system of price pooling was operated through the "Aluminium Regulation Account". The INDAL and the HINDALCO whose retention prices were lower than the pooled price, were to credit the difference to the Account from which the MALCO and the BALCO, whose retention prices were higher than the pooled price, were to be paid the difference between their cash costs and the pooled price. The Account was designed to be operated on a no-profit-no-loss basis.

20.2.2.11 In January 1976, the BICP was asked to review the retention prices of 'levy' aluminium fixed earlier. In its report (November, 1976) the Bureau recommended continuance of the pooled price and revised the retention prices to the different producers based on the then selling prices of non-levy metal. At this juncture, the BICP switched over to the calculation of fair ex-factory price on the basis of an estimated post tax return of 12 per cent on net worth. However, to the extent that 50 per cent of the output was to be freely sold - for which the excise duty had been increased - there could be no guarantee as to the overall final return.

20.2.2.12 In view of increases in input costs, as also to remove various distortions which had arisen as a result of the dual pricing scheme, Government again asked the BICP in early 1977 to further review the costs of production of aluminium producers. On the basis of the recommendations of the BICP, the control system was drastically amended in October 1978. It was decided to have a uniform controlled consumer price of aluminium ingots (with a small differential between EC grade aluminium and CG aluminium as earlier). Different retention prices for different producers were however recommended. A post tax return of 12 per cent on the net worth was allowed. The cost norms as well as the return on capital were based on the assumption of a capacity utilisation of 85 per cent. The "subsidy" on the use of aluminium by Electricity Boards in the form of conductors was abolished, and the excise duty was reduced to keep the market price of aluminium at roughly the same level as obtained in the market for CG aluminium before the price revision. It was also decided to allow the import of aluminium in adequate quantities so as to fully meet the demand, the imported aluminium being sold through the BALCO on a no-profit-no-loss basis at the price of indigenous aluminium by calibrating the import duty on each consignment separately, on the basis of the import price paid.

20.2.3 Distribution controls

20.2.3.1 Informal distribution control was first introduced for aluminium in 1964. The measures adopted earlier to replace imported copper with indigenous aluminium had led to the growth of demand for EC grade aluminium for the manufacture of cables, conductors and other electrical equipment beyond the available supplies. As a result, a system of informal distribution control was introduced on EC grade aluminium. Under this system, the estimated production of aluminium was allocated by the DGTD (then known as the Development Wing) to different consumers, including the cables and conductor manufacturers. This system was withdrawn in 1968 when supply improved.

20.2.3.2 The informal distribution control over EC grade aluminium had to be reintroduced in August, 1969. The system of distribution was broadly similar to that adopted earlier, over 1964-68. Allocations of only EC grade metal were made by the DGTD while sales of CG aluminium were not subject to any control. The system had considerable scope for leakage. The ex-post scrutiny of end-use was weak. Since most producers supplied conductors to more than one State Electricity Board, the allocation of aluminium against orders received from Electricity Boards was no guarantee for the actual supply of the cables/conductors to the Electricity Boards.

20.2.3.3 In 1974, distribution control on aluminium was made formal. The control covered both EC and commercial grade aluminium ingots, and EC grade wire rods. With the introduction of dual pricing policy (July, 1975) the distribution and price control over CG aluminium were lifted. Later in 1976, the distribution control over EC grade (i.e. levy) aluminium was relaxed, and guidelines were laid down in regard to supplies to be made by the primary producers.

20.2.4 Assessment of controls over aluminium

20.2.4.1 The history of price control over aluminium has been described in some detail because it indicates how, over a period of only eight years, the system of price

control followed a tortuous course. A point of relevance in this context is the closure of the ALUCOIN in September 1973, after continuous losses since around 1969. This unit - the first integrated aluminium plant to be started in the country - had a high cost of production in relation to the INDAL and HINDALCO as also MALCO, partly because of its small size and relatively high input norms, but also because of the much higher cost of power supplied by the Damodar Valley Corporation (DVC) to this unit, at 9 paise per unit as against around 2 paise per unit by the three bigger producers. As noted earlier, power cost alone made a difference of some Rs. 180 per tonne in the cost of aluminium for every paisa of difference in the power tariff per unit; and for ALUCOIN, it made a very substantial difference in the total cost. When price control was under consideration, ALUCOIN had pleaded for a separate retention price for each unit, based on cost calculations - a suggestion which did not find acceptance until 1975 when this unit had already been closed down. From hindsight, one can say that if the policy adopted in the early seventies had followed the logic of policies adopted later, the closure of ALUCOIN could have been avoided, and imports of aluminium in 1977-78 and 1978-79 could have been avoided.

20.2.4.2 The past exerience of price and distribution control on aluminium may have certain broad lessons in regard to such controls generally, and controls on basic inputs in particular, which may be briefly summed up as follows:-

(a) Price control in 1970 followed a hike in excise duties, with an effort to persuade the industry to absorb the duty. Eventually, prices had to be raised after a cost enquiry.

(b) Like many other essential commodities the prices of which were controlled, the actual announcement of controlled prices - based on cost calculations of previous years was generally made with a considerable time lag. As a result, no sooner was the controlled price announced than a spate of representations arose on the ground that the cost of inputs had already increased, such as made the price unrealistic.

(c) The cost calculations were also made on assumptions which were found, ex-post, to be unrealistic, as for instance in regard to the level of capacity utilisation which could not be achieved owing to cuts in power supply, beyond the control of the producers.

(d) The cost of production of different units varied significantly, in part doubtless owing to greater efficiency of some units - e.g. in regard to input norms - but also in part due to circumstances over which the producers had no control, like the power tariff.

(e) These variations led to the emergence of fair ex-factory prices for each unit being determined, but only after one hard-hit unit was forced to close down under the impact of uniform prices.

(f) A dual pricing system was evolved - and a somewhat complex system to achieve it - in order to meet the requirements of a "priority sector" at a concessional price.. In retrospect, the benefit to the priority sector was insignificant - the "subsidy"

to the power transmission programme amounting to no more than around 1 per cent of the total outlay on power development. At the same time, many other users, including the poorest consumers using aluminium utensils, were hard hit.

(g) In retrospect, it may also be stated that a complex system of increased duties - associated with subsidies - was evolved to operate the dual pricing system; but the duties became somewhat sticky on revenue considerations even as it was realised that the system was not working well.

(h) Numerous considerations prevailed in determining the pricing policy for aluminium; but somewhere along the line, among the maze of diverse objectives, both the interest of the ordinary consumer and of providing the producers enough funds to be able to at least replace capital machinery when due, were missed out.

(i) Insofar as distribution control is concerned, while EC grade aluminium could be allocated to parties supposed to meet orders of the State Electricity Boards for the supply of cables and conductors, there was no machinery to prevent leakages of aluminium. The system also adversely affected small scale units, for whom the allocative machinery did not work well, as also all uses other than the manufacture of power transmission conductors. Like many other items affected by price control but with inadequate control of distribution, the benefit of the price control accrued substantially to the trade; and the companies producing aluminium suffered while middlemen reaped the benefit of a black market in EC grade aluminium. The benefit to Electricity Boards could have been ensured without price and distribution control but with freer import of aluminium, or with a direct subsidy if required.

20.2.5 <u>Special considerations in regard to control over aluminium</u>

20.2.5.1 The following features of the aluminium industry are relevant in any consideration of controls over the industry:

(a) The aluminium industry is a capital intensive industry, new units involving a very much higher capital servicing cost per tonne than the older units. In a memorandum received by the Committee reflecting the unanimous views of all producers and consumers of aluminium, including the Central Electricity Authority, reached in a Workshop organised on the subject in July 1978, it is stated that:-

"...... the dual pricing system should be abolished forthwith. A realistic single 'national price' should be evolved for which the authorities may consider appropriate methods so that the interests of all parties can be safeguarded, different retention prices to different primary producers being one possible method. In the latter event, an appropriate agency should continuously monitor

the cost of production at the smelters and recommend periodic adjustment." 1/

(b) Power costs for different aluminium units still vary by a wide margin, from 9 paise to 16.125 paise per unit, as of early 1979. The power cost alone would make for a difference of more than Rs. 1200 per tonne in the cost of production of aluminium.

(c) Unit costs of production in the aluminium industry depend heavily on total output since fixed costs are very high. Total output in turn depends upon the supply of power. All cost estimates can be totally upset by vagaries of power supply, which have become endemic.

(d) Aluminium is a versatile metal, and is required for many uses. Fortunately, India is endowed with rich bauxite reserves, though as of today the country is short of power. The scope for increasing output is considerable. Apart from electrical uses, aluminium is used by the transport industry, the construction industry, and by several consumer industries. While price of aluminium cannot be left free to be determined by the cost of production of the marginal producer, with protection from imports a realistic pricing is an essential ingredient for this industry.

20.2.6 <u>Suggested policy for aluminium</u>

20.2.6.1 Taking these factors into account, the Committee feels that -

(i) For an industry like aluminium, while the present price pooling arrangement should continue for some more time, till further new capacity is set up, as supplies increase, the system of separate retention prices could be gradually relaxed, with special concession (in respect of excise duty) to new units to compensate them for higher capital servicing costs.

(ii) Power should be available to all aluminium producing units at a uniform "opportunity cost", and not at the cost of generation at a particular station. In calculating the "opportunity cost" due regard must of course be paid to the extremely high load factor and the virtually zero transmission cost as well as transmission loss. The transition from the present to the suggested system should be over a period of time. This would reduce the need for separate retention prices arising from widely divergent power costs.

(iii) The above adjustment may be brought about over a period of, say, five years to avoid a sudden jolt to the system. In the meantime there should be an uniform pooled price with different retention price for each unit.

(iv) A buffer stock of aluminium should be built up, if necessary with imported aluminium, in order to get over temporary difficulties that may arise from temporary power cuts. A small buffer stock of, say, around 20,000 tonnes - against an annual demand for around 250,000 tonnes currently - may well meet the needs of the situation.

1/ Recommendations of National Workshop on Aluminium Utilisation..

(v) No special price preference should be given to the Electricity Boards on use of EC grade aluminium. However, production regulation on the quantum of EC grade aluminium should continue, to ensure availability.

(vi) The divergent capital costs of the new and old units could be dealt with by way of excise duty rebates or similar fiscal adjustments, so as to extend incentive for greater efficiency in production.

20.3 Copper

20.3.1 Introduction

20.3.1.1 Copper production commenced in the country in the late 1920s in a small smelter in the private sector at Ghatsila (Bihar). The present capacity, of Hindustan Copper, the only producer, is 47,500 tonnes consisting of 16,500 tonnes at Ghatsila (Bihar) and 31,000 tonnes at Khetri (Rajasthan). The latter is a high cost unit being based on very lean ore. Output has yet to reach even 50 per cent of capacity owing to diverse teething and operational problems, the maximum output attained so far being 22,400 tonnes in 1976-77. The indigenous output of copper during the last six years is given below :-

	(Tonnes)
1973-74	8,800
1974-75	9,900
1975-76	18,600
1976-77	22,400
1977-78	21,446
1978-79	20,000 (estimated)

20.3.1.2 Consumption of copper in India rose steadily from about 24,700 tonnes in 1948 to a maximum level of 78,600 tonnes in 1963. Thereafter, consumption declined and has averaged around 54,000 per year over the period 1971-72 to 1977-78. 2/ The main reason for a stagnant level of consumption over the last decade or so has been that Copper use has been regulated through a ban on the use of copper for certain purposes, and a switch to the use of aluminium in place of copper. A rigorous import policy, through which copper use was regulated even in areas where there was no ban, has accentuated the shift in demand. During the year 1978-79, the copper control order was relaxed and both imported and indigenous copper have been allowed to be used freely by actual users. As judged by sales by the Minerals and Metals Trading Corporation of India Ltd. (MMTC) and the Hindustan Copper Ltd. (HCL), the apparent consumption of copper during the year 1978-79 is estimated at around 90,000 tonnes. This doubtless reflects a speculative increase in demand.

20.3.1.3 Substantial year to year variations in offtake have been a feature of the copper market in India in recent years. Apart from the changes in economic activity, particularly that of the consuming sectors, speculative demand also appears to have been a major characteristic of the copper market. The offtake of copper during the last

2/ Based on production plus imports adjusted for changes in stocks with MMTC and HCL. See Report of the Working Group on Non-Ferrous Metals, November, 1978.

eight years has been as follows:-

	(Tonnes)
1971-72	64,400
1972-73	57,200
1973-74	59,300
1974-75	37,800
1975-76	47,500
1976-77	54,700
1977-78	61,000
1978-79	90,000

Source : For the years 1971-72 - 1977-78, Working Group Report on Non-Ferrous Metals - VI Plan. For 1978-79, MMTC.

20.3.1.4 About 43 per cent of copper consumption in India today is by the winding wires industry, 17 per cent by cables and an equal percentage for alloying and for semis. The balance is required for other purposes including handicrafts, utensils manufacture, etc. The requirement of electrolytic copper wirebars has to be met from imports both because the demand exceeds indigenous production and also, and more particularly, because indigenous copper is yet to match the rigorous purity standard required by the electrical industry.

20.3.1.5 International prices of copper have been characterised by sharp fluctuations. This may be seen from the following figures during the current decade:-

	London Metal Exchange Price of Wire Bars £/tonne
1971	444
1972	428
1973	727
1974	878
1975	557
1976	781
1977	750
1978	710

20.3.1.6 The increase in 1973 over 1972 is almost 70 per cent, and the decline in 1975 is by 37 per cent. These annual average figures hide the amplitude of fluctuations within the year. Copper prices are characterised by violent intra year fluctuations. Prices, for example, rose from £447 per tonne on 3.1.1973 to a peak of £1400 per tonne on April 1, 1974. In 23 days of March 1974 alone, the increase in prices was of the order of 27 per cent. The collapse that followed was as dramatic as the rise. The prices touched a level of £498 per tonne on 22.1.1975 with a 27 per cent decrease in less than two months after the initial decline set in.

20.3.2 Controls over copper

20.3.2.1 The genesis of control over copper is to be traced to the shortage of foreign exchange which developed during the Second Plan period (1956-61). Following the abolition of the OGL in the matter of copper imports (among other items) in July 1957, Government imposed the Non-Ferrous Metals (Control) Order in April 1958 under the Essential Commodities Act. The Order remained in force until mid-September 1965, when it was replaced by the Scarce Industrial Materials (Control) Order. The Order covered only imported copper and its price/distribution. Rationing through restrictive import policy has been a major feature in the supply of copper over years.

20.3.2.2 The Scarce Industrial Materials (Control) Order of 1965 was imposed with a view to conserve non-ferrous metals (including copper) and to bring about their judicious use. The Order covered both indigenous and imported copper and the price as well as distribution of the metal. The Order was rescinded in June 1966, after import liberalisation following the devaluation of the rupee.

20.3.2.3 The Development Wing (now designated DGTD) had meanwhile recommended that the maximum possible substitution of aluminium for copper should be brought about in the larger national interest. In 1970, the Copper (Prohibition of use in the manufacture of electrical cables and wires) Order, 1970 was issued under the Essential Commodities Act, with a view to prevent the use of imported copper for non-essential purposes, as well as to promote the substitution of copper by aluminium. This Order has been superseded by the Copper (Prohibition of use in the manufacture of PVC and VIP wires of domestic type) Order, 1978 issued in July 1978, under the Essential Commodities Act. Under this Order, no large or medium scale manufacturer is to use copper in the manufacture of PVC and VIR wires of domestic type. The Order does not cover manufacture of PVC and VIR wires by small scale units (with less than Rs.10 lakhs fixed assets) and manufacture of copper wires for export.

20.3.2.4 The cost of production of copper in India is high because of the extremely poor grade of the ore, and also because of low capacity utilisation. The latter is within the control of the producers, but the former is not. Copper production in India - notwithstanding its high cost - has been justified on strategic grounds. There is, of course, the alternative possibility open today, of building up a sizeable buffer stock of imported copper, and holding it in a strategic stockpile, during periods of low international prices. But this possibility was not open at the time the copper production programme at Khetri - the hign cost unit - was taken up because of the inadequacy of foreign exchange reserves of a magnitude that could meet the requirements of buffer stocks of all strategic items. In retrospect, the cost calculations also went awry - as they sometimes do in mining projects - in regard to the grade of ore, and threfore, of the cost of production.

20.3.2.5 A major problem arises due to the high cost of production of indigenous copper. Since copper is required by a large number of key industries, the high price of copper has the effect of raising the cost structure of all electrical and other industries based on copper. While strategic reasons call for the production of a certain minimum amount of copper indigenously, a final consumer price of copper based on the indigenous production cost can only redound adversely to the general cost structure in the economy.

20.3.2.6 With import prices fluctuating sharply from week to week, the solution to the problem of instability has been sought by canalising imports. In order to introduce an element of fairness in competition between different consumers of copper, it has also been decided to release imported copper by the MMTC at an "average" of quarterly prices, so that Actual Users do not have to pay widely divergent prices for copper imported in different consignments at almost the same time. It is this procedure which has led to speculative increases or decreases in demand for copper, since it is not difficult to forecast - on the basis of the London Metal Exchange (LME) prices in any quarter - what the MMTC's selling prices are likely to be in the next quarter. Given the instability of world copper prices, this leads to a pressure of, or a slump in, demand for copper, from time to time.

20.3.3 Present position

20.3.3.1 The control over copper price and distribution is essentially administrative, since of late rationing of supplies through restrictive import allocations and distribution control has been kept in abeyance. A special problem that has come to light lately is the misuse of imported electrolytic copper wire bars, in lieu of indigenous fire refined copper, because of the virtual lifting of distribution control, and the equality of prices between the two. As of today, apart from the administrative control on the sale price of copper, there is only one formal control on copper: namely, on the usage of copper as per the Copper (Prohibition of use in the manufacture of PVC and VIR wires of domestic type) Order of July 1978.

20.3.3.2 There is yet another indirect control over copper that arises from the policy of canalised import of copper through the MMTC. The Committee feels that this is an item in respect of which the policy of canalised import has paid good dividends, and is therefore justified. The MMTC has been able to negotiate long term agreements with producers of copper, for regular supply at "producer prices" rather than at LME spot prices. Copper imports in bulk have given an advantage in freight costs through bulking. The stocks held by the MMTC have helped producers to reduce their own inventories. Finally, the MMTC has been able to dampen fluctuations in copper prices, and to supply copper to different actual users at roughly the same prices, i.e. other than internal freight costs. The Committee would recommend continuation of the present policy of canalised import in the case of copper.

20.3.3.3 The management of supply/demand for copper presents a number of problems. Roughly 60 per cent of the requirement of copper has been, and is at the moment, imported. The cost of production of indigenous copper is significantly higher than the import price. While this price difference can in theory be off-set by an import duty, yet, as noted earlier, the international price of copper has been subject to sharp fluctuations. This makes it difficult to rely on the tariff mechanism for simplifying the system and doing away with administrative control on the price of copper.

20.3.3.4 A number of aberrations have come to surface lately, in the operation of the present system. These are briefly noted below:-

(a) It would easily be seen from the figures given in para 20.3.1.3 that there is a strong speculative element in the demand for and offtake of copper.

(b) There are also pressures of demand on the MMTC, depending on the LME price, since the MMTC announces only quarterly prices, which have necessarily to be based on its actual import costs, whereas speculators have the advantage of knowing the latest world prices.

(c) The present system also makes the position of the only indigenous producer of copper, the HCL, somewhat insecure. This company was set up as an import substitution measure, for strategic reasons; and there is justification for pricing its products on the basis of its cost, on the assumption of reasonable norms of efficiency. To expose the HCL to free competition from abroad, or to give it unmerited profit in the event of a steep, speculative increase in the international copper price, would both be wrong from the point of view of the long term strategy. The pricing policy for copper needs to take note of this dilemma.

20.3.4 Alternative choices open

20.3.4.1 In the light of the above, the available options are -

(a) To deliberately subsidise the HCL, and thereafter, to leave the copper market free.

(b) To build up a strategic stockpile of copper, both from imports and domestic production, particularly when international prices are low, so as to regulate the market.

(c) Independently of the build-up of a buffer stock, to manage the control over the price of copper, either supplemented by control over distribution or without any distribution control. The latter would involve the management of demand/supply by a pricing policy buttressed by regulated supplies.

20.3.4.2 The Committee would like to rule out giving an open-ended subsidy to the HCL. This would automatically rule out a free market in copper. With violent fluctuations in the international price of copper, it would not be possible to safeguard indigenous production by tariff changes only, unless the import tariff is made so high as to raise the general cost structure of industry to an unacceptable level.

20.3.4.3 It would follow that the only possibility to secure an orderly development of not only the copper industry but all copper based industries would be to -

(a) ensure the stability of copper prices and copper availability; and

(b) ensure a reasonable price for the indigenous producer of copper, based on a cost study.

20.3.5 Suggested policy for copper

20.3.5.1 Taking all factors into consideration, the Committee feels that -

(i) The price of copper for HCL should be determined on a cost study

assuming reasonable norms of efficiency.

(ii) Import of copper should continue to be canalised through the MMTC.

(iii) A buffer stock of copper should be built up to achieve stability in copper supply and prices. On prima facie grounds, a buffer of about 30,000 tonnes (6 months current consumption) of copper appears to be desirable to ensure stability of supplies and prices.

(iv) The price to the consumer should be based on pooling of cost of indigenous and imported metals.

(v) The price of copper to be sold by the MMTC/HCL should be announced on a half-yearly basis which can be done by operating on the buffer stocks.

(vi) There should be suitable price differential between special high grade electrolytic wire bars used by winding wire industry, and ordinary fire refined copper required by others.

20.4 Zinc

20.4.1 Introduction

20.4.1.1 Indigenous zinc production commenced in India in 1967-68 with a licensed capacity of 38,000 tonnes per annum in two smelters - one at Alwaye (Kerala) commissioned by M/s Cominco Binani Zinc Limited (CBZ) - licensed for 20,000 tonnes per annum - and the other at Debari (near Udaipur) - licensed for 18,000 tonnes per annum - initially planned by the Metal Corporation of India (MCI). The Debari unit was acquired by Government in October 1965, the smelter being commissioned thereafter by the Hindustan Zinc Limited (HZL), owned by the Government of India. The capacity of the Debari smelter has since been expanded to 45,000 tonnes per annum, and a new smelter has recently been commissioned by the HZL at Visakhapatnam with a capacity of 30,000 tonnes per annum. The current production capacity at Alwaye is around 14,000 tonnes per annum. The smelters at Alwaye and Visakhapatnam are based on imported zinc concentrates, while the Udaipur smelter is based on indigenous ore.

20.4.1.2 Thus, of the licensed capacity for zinc at 95,000 tonnes per annum capacity for 50,000 tonnes is currently based on imported zinc concentrates. Meanwhile, mining projects currently under implementation are calculated to provide sufficient ore to meet the requirement of the public sector units (at around 150,000 tonnes of concentrates for production of 75,000 tonnes of zinc annually).

20.4.1.3 The indigenous output of zinc in the last six years is indicated below:-

(tonnes)

	HZL	CBZ	Total
1973-74	10,823	9,954	20,777
1974-75	13,953	8,826	22,779
1975-76	16,031	11,798	27,829

	HZL	CBZ	Total
			(tonnes)
1976-77	14,533	12,500	27,033
1977-78	33,501	9,611	43,112
1978-79	52,500	12,500	65,000 (estimated)

20.4.1.4 The actual consumption of zinc is around 100,000 tonnes which is expected to grow at an annual rate of 4.5 per cent. The offtake of zinc in terms of sales by the HZL and the CBZ on the one hand and by the MMTC on the other is given below:-

Zinc Sales (in '000 tonnes)

	Indigenous Zinc producers	Imported Zinc by MMTC	Total
1972-73	30.0	70.0	100.0
1973-74	25.5	66.2	91.7
1974-75	23.0	48.8	71.8
1975-76	29.9	37.8	67.7
1976-77	24.2	70.6	94.8
1977-78	37.0	59.0	96.0

20.4.1.5 In addition, during 1977-78, around 10,000 tonnes of zinc were imported directly by Registered Exporters under the Import Replenishment Policy, making for a total offtake of 106,000 tonnes of zinc in 1977-78.

20.4.1.6 The demand for zinc varies in accordance with the state of demand for the products of the user industries. A study conducted by the National Productivity Council in 1977 indicates that some 63 per cent of the zinc consumed in India is by the galvanising industry; 13 per cent by the dry cells industry (for which high purity zinc has to be imported); 10 per cent in non-ferrous alloys and semis production (including zinc sheets required by the printing industry for photo engraving); 5 per cent by die casting industry and 4 per cent by the zinc dust industry (used for diverse purposes, including the manufacture of hydrosulphite of soda); and the balance in chemical and miscellaneous other industries.

20.4.2 History of control over zinc

20.4.2.1 The industrial licence granted to the CBZ contained, inter alia, the following stipulation:-

> "The price and distribution of zinc ingots or slabs manufactured by the industrial undertaking shall be subject to the directions of the Government of India".

With a view to avoiding unhealthy competition and speculative purchases as between the two zinc producers, one based on imported concentrates and the other based on indigenous ore, informal price and distribution control over indigenous zinc was introduced from June 1968.

20.4.2.2 Under the informal price control, the selling price of zinc was initially fixed at Rs.2700 per tonne (exclusive of excise) in June 1968, and revised to Rs.2850 per tonne in February 1970 (both on an ad hoc basis). The price was then revised to Rs.4090 per tonne (exclusive of excise) from February 1972, based on a cost study by the BICP. Meanwhile, the cumulative losses of CBZ and HZL stood at Rs.216 lakhs as on 31.12.71 and Rs.184 lakhs as on 31.3.70 respectively. Following representations from the zinc producers that the selling prices fixed were unremunerative, the matter was re-examined, and with effect from April 1973, the producers were permitted to sell zinc at the ruling MMTC prices, when the selling prices of both (after all taxes and duties) were equated. It is pertinent to note that in March 1973, just prior to the new pricing system being instituted, the MMTC price - which was linked to the ruling LME price of zinc metal - was Rs.6215 per tonne whereas the price paid to the indigenous producers was Rs.4965 per tonne (inclusive of all duties). The average selling price of MMTC (which is also the selling price of indigenous producers) from 1973-74 onwards in respect of Actual Users is indicated below:-

	Rs. per tonne
1973-74	9,055
1974-75	15,292
1975-76	14,198
1976-77	14,010
1977-78	11,850
1978-79 (Upto February, 1979)	10,925

20.4.2.3 The important point to note is that during June, 1971 to March, 1973 the prices paid to the indigenous producers were below the selling price of zinc by the MMTC, even though the indigenous producers were running losses. In practice, this created a scramble for supplies of indigenous zinc at controlled prices. Product prices were, however, naturally calibrated to the higher import prices.

20.4.2.4 In the above connection, the recommendations made by the Parliamentary Committee on Public Undertakings (COPU) in 1975, in the Eightyeighth Report of the Committee (6th Lok Sabha) are relevant. In recommendation No.77 the Committee on Public Undertakings 3/ has observed as follows:

> "The Committee find that the sale prices of zinc fixed by HZL in consultation with the Government were lower than the cost of production and also lower than the MMTC's prices for imported zinc (except during the quarter April-June 1971) and it appears that these were also lower than the ruling market prices.
>
> "The Committee regret to observe that till March, 1973 the HZL was made to sell zinc produced by it at a price which was not only unremunerative but also lower than market price and also lower than the MMTC's price for imported zinc and thus suffer loss in the process. The Committee would like the Government to review the pricing policy followed till March 1973 and draw lessons for their future guidance".

3/ Parliamentary Committee on Public Undertakings, Eightyeighth Report (6th Lok Sabha) - paragraphs 8.17 and 8.20.

20.4.3 Informal distribution control

20.4.3.1 Since 1968-69, indigenous zinc has been subject to informal distribution control. Distribution of imported zinc has been restricted as per "allocations" made by various sponsoring authorities to actual users, under Import Control.

20.4.3.2 Under the system of informal distribution control, the half-yearly production of the two indigenous producing units was estimated in advance. The requirements of Government Departments, industrial units etc. were ascertained and sector-wise allocations made by the Department of Mines. The requirements of Defence and Government Departments were met first, and the balance metal likely to be available from the indigenous producers placed at the disposal of the DGTD, DC(SSI) and the Iron & Steel Controller for further unit-wise distribution to industrial consumers borne on their registers.

20.4.3.3 The quantum available for the latter posed a problem of "allocation", and although an attempt was made to allocate indigenous and imported zinc on a pro-rata basis, some consumers got an unmerited advantage. Since the final product prices were based on the higher price of imported zinc, the system involved a subsidisation of some zinc processors at the expense of the primary zinc producers.

20.4.3.4 With improved supply position, and with uniform prices for indigenous and imported zinc, the distribution control was relaxed in February 1975, and the producers were permitted to sell zinc to Government Departments, public sector undertakings and DGTD units without any formal allocation and quantity limit. The consuming units are today also allowed to register their zinc requirements with the MMTC which arranges for import of the metal.

20.4.3.5 The only control on zinc at present - that too an administrative control - is on the price. The producers are required to sell the metal to Actual Users at prices not exceeding the ruling MMTC prices. As far as the CBZ is concerned, the control is not statutory but "informal"; for the HZL, the control is administrative. The producers are also precluded from taking any advance against future sales; and there are other "informal" restrictions on the producers. Since imports are canalised, the MMTC sale price is administratively determined by an Inter-Ministerial Pricing Committee headed by the CCI&E. There is no distribution control on zinc. There are, however, informal guidelines as to sales by CBZ, HZL and the MMTC.

20.4.4 Present problems

20.4.4.1 The problems of the zinc industry, relevant from the standpoint of controls and subsidies, are briefly summed up below:-

(a) There are two companies and three production units manufacturing primary metal. The CBZ is based on imported concentrates. While the Debari unit of HZL is based on indigenous ore, the Visakhapatnam unit is based on imported concentrates.

(b) International price fluctuations of zinc, though not as severe as for copper, are still considerable, and thus external factors become

important in the pricing of zinc. Even though imports may well become a small percentage of the total supply of zinc in the country, in future, the fortunes of the indigenous producers of zinc have so far been subject to speculative fluctuations in the international price of zinc.

20.4.4.2 As a long term measure, there is need for a policy which would be consistent and substainable over time. In areas where international prices are volatile and are subject to speculative fluctuations, indigenous producers cannot be left wholly to the mercy of fluctuations in international prices. On the other hand, where production is geared to processing imported concentrates, a link between indigenous and import prices may not be unreasonable since concentrates prices and zinc metal prices move together in the international markets.

20.4.4.3 The regulation which appears, therefore, to be called for is essentially one of insulating the domestic producers against the speculative and other fluctuations in international prices.

20.4.5 Suggested policy for zinc

20.4.5.1 Taking all factors into consideration, the Committee feels that -

(i) The price of zinc of the three units should be determined on a cost study assuming reasonable norms of efficiency, and canalisation of import of zinc should continue as in the case of copper.

(ii) The price to the consumer should be based on pooling of indigenous metal of all three units and imported metal plus any levies/duties government may like to impose for revenue purposes. In pooling zinc prices, distinction should be made between production based on imported and indigenous concentrates without bringing in other considerations.

(iii) In order to insulate the economy as far as possible from speculative fluctuations in international prices, a buffer stock should be maintained to ensure stable supplies to actual users. On *prima facie* grounds, it appears that about two and a half months requirements or about 25,000 tonnes of zinc may be adequate for this purpose.

Chapter 21

CEMENT

21.1 Introduction

21.1.1 Even though the first cement plant was installed in India in 1913, over a period of nearly 40 years, till 1950-51, the growth in capacity and production was extremely slow. Between 1950-51 and 1977-78, although capacity and production rose around six times, the supply of cement has been characterised by a chronic shortage in relation to demand. Furthermore, the growth in capacity and production has been erratic. Table I below would show that there was a rapid rate of growth during the decade of the fifties, but a much slower rate of growth of capacity and output during the two subsequent decades. The result has been that the gap between demand and supply has, over time, widened, and has now assumed fairly serious proportions. Official estimates of the deficit at present vary between 2 and 3 million tonnes per year –

Table I

Capacity, production and rate of growth of cement industry

	Capacity (Million tonnes)	Production (Million tonnes)	Annual rate of growth of capacity during past plan period: Targeted	Annual rate of growth of capacity during past plan period: Achieved
1950-51	3.75	3.20	-	-
1955-56	5.02	4.60	10.3	8.9
1960-61	9.30	7.97	26.1	13.2
1965-66	12.00	10.82	10.0	5.2
1973-74	19.75	15.00	No target fixed	5.8
1977-78*	21.87	19.30	4.4	2.0

*Target fixed for 1978-79 but Plan terminated in 1977-78.

21.1.2 Apart from the fact that capacity has not kept pace with growth in demand, at times, shortages have become acute on account of the under-utilisation of capacity. Power cuts, shortage of coal, inadequate availability of wagons, etc. have all contributed at one time or the other to less than optimal utilisation of capacity. As a consequence, there have been phases of acute shortage, profiteering, corruption in the distribution of cement, and general dissatisfaction and frustration.

21.1.3 Government's response to shortages of cement has been to clamp down price and distribution control. The system of distribution has also swung between formally and informally controlled allocations, depending on the degree of imbalance in demand and supply from time to time.

21.1.4 Price controls have led to a shift in relative prices and profitability away from cement (vide, Annexes 21.1 and 21.2). There was a fall in the rate of growth of investment and capacity creation from the Third Plan period. The slackening of the pace of investment was accentuated by the regulation exercised in the early seventies

under the MRTP Act which, while moderating the concentration of ownership and control in this industry, has at the same time been an additional factor in keeping investment and the growth of capacity at less than the required level.

21.1.5 Since prices were always fixed on f.o.r. basis and equalised for all destinations, there has been a locational concentration of the industry in the South and West, where the quality of limestone is good. One consequence has been the minimisation of the cost of production without reference to transport costs. Since a large part of the market has been in the North, East and North East, this has imposed an avoidable burden on the country's transportation system.

21.1.6 The cement industry typifies the example of the long-run effects of price controls on an essential commodity without adequate prior thought as to the growth of investment and of production capacity, resulting in a perpetuation of shortages. Cement also typifies the difficulties inherent in attempting to promote multiple objectives through a set of instruments each designed to further only one objective though they may be in conflict with other objectives.

21.2 Licensing control

21.2.1 The cement industry is included in the First Schedule to the Industries (Development and Regulation) Act, 1951; and has been included in Appendix I of the Industrial Licensing Policy of February 1973. Except during a brief period between May 1966 and February 1970, the manufacture of cement has required an industrial licence. Although large houses have been permitted to undertake the manufacture of cement under the extant industrial licensing policy, yet, over long periods, many applications from such parties were not approved on the ground that cement is an established industry to which new entrepreneurs should be attracted. The 60th Report of the Estimates Committee (1973-74) had the following comment on this issue:

> "The Committee note that during the period between January, 1972 and the 3rd May, 1973, applications of the large houses for new units, or for expansion, were not approved as a result of the decision of the Cabinet Committee for Economic Coordination........
>
> "The Committee note that some applications from larger houses for a capacity of 4.00 million tonnes pending clearance from M.R.T.P. angle. The Committee recommend that in the interest of increased cement production, these applications should be processed expeditiously......" 1/

21.2.2 The Committee notes that one reason why cement capacity did not come up as per licences issued was that in the interest of dispersal of ownership in the cement industry, licences were issued during the past decade to many novices who were not in a position to implement the licences granted to them.

21.2.3 At present, apart from a capacity of 11.8 million tonnes per annum for which licences have been issued in favour of the private sector, the public sector has been

1/ 60th Report of the Estimates Committee (1973-74) of the Fifth Lok Sabha on the Ministry of Industrial Development - "Availability and Distribution of Cement "; pp. 38-39.

entrusted with the task of erecting cement plants with a capacity of 7.7 million tonnes per annum. However, the allotment of Plan funds for public sector projects in the cement industry has in the past, been enormously delayed. The longer gestation period of public sector projects - partly through lack of experience in the initial years, partly because of the difficult terrain in which public sector plants have been located as a matter of policy - has compounded the problem of cement shortage.

21.2.4 Thus, Government policy has somehow not been purposeful in channelling investment funds to the cement industry, and has contributed to the present difficult situation in regard to cement.

21.2.5 The Committee would suggest that the cement industry should be delicensed.

21.3 Price control

21.3.1 The history of price control over cement may be briefly seen from the following :

August 1942:	Prices fixed under DIR, on "cost plus" basis.
1946-1953:	After lapse of DIR, price controlled through executive order, on basis of cost of ACC.
1953:	Tariff Commission asked to recommend cement price; Commission recommended base price of Rs.72 f.o.r. destination for eight companies, and higher price for high cost units. Government fixed base price of Rs.67 with higher prices ranging from Rs.72 to Rs.79 for high cost units.
1958:	Revised prices fixed on basis of fresh Tariff Commission enquiry.
1961:	On basis of fresh enquiry, Tariff Commission recommended ten separate retention prices, and also, escalation formula for increases in prices of coal and fuel. Government fixed uniform retention price of Rs.69.50 per tonne (against range of Rs.67.50 - 79.50 suggested by Tariff Commission, with price of Rs.103 per tonne for one unit). Government agreed to additional payments for three high cost units.
January 1966:	Price of cement decontrolled.
January 1968:	Price control imposed again under Cement Control Order of 1967. Uniform f.o.r. prices, with multiple ex-works prices notified, formalising system of freight and price pooling.
	Pooling to be operated through Cement Regulation Account.
1969:	Fresh Tariff Commission enquiry ordered, and meanwhile, higher uniform (ex-works) retention prices fixed.
September 1973:	Government accepted interim recommendation of Tariff Commission and allowed *ad hoc* increase in price.

August 1974 : On basis of fresh Tariff Commission enquiry based on cost study spread over 1972-74, ex-factory price of cement fixed at Rs. 134.20 per tonne.

September 1974: Price raised to Rs. 139.15 owing to cost escalation meanwhile.

21.3.2 After 1974, cement prices have been revised from time to time - prices being indicated later - but a common feature of price changes has been to fix prices lower than these recommended by the Tariff Commission, or as per the escalation formula given by the Tariff Commission, or prices recommended by the BICP.

21.3.3 It would be seen that there have been numerous changes in the controlled price determined on the basis of prolonged enquiries. However, the extent of fine tuning of the selling price based on detailed cost calculations has been such that in September 1974 - within six weeks of the fixation of the controlled price - it became necessary for

Government to revise the price fixed in August 1974, to allow for cost escalations after the cost studies made by the Tariff Commission.

21.3.4 The major recommendations of the Tariff Commission in 1974 are briefly summed up below as they would be of some value in the evaluation and assessment of current control over cement:

(a) Cement should be available all over India at a uniform price.

(b) While a uniform ex-works retention price may be fixed, certain additional concessions may be granted in special circumstances. In particular, units to be set up later should be given a higher ex-works retention price.

(c) Escalations (in the retention price) should be provided for major elements of costs.

(d) A special "rehabilitation allowance" of Rs.4 per tonne should be allowed as part of the retention price. This amount should be separately funded, and used for approved modernisation and replacement purposes in the same manner as was done in 1962 by the creation of a "Development and Rehabilitation Account".

(e) New units may be allowed an additional price of Rs. 10 per tonne, to allow for higher capital costs. For substantial expansion of existing units, Rs. 5 per tonne may be allowed in this connection.

(f) Certain specified high cost units may be allowed Rs. 25 per tonne over and above the uniform ex-works price. There would, in effect, be three prices: for existing units; for units to be set up soon; and for future units. These differentials could be adjusted by adjustments in the excise duty.

(g) The units, going into production later should be given a price that would secure for them a return of 14 per cent on the capital employed, subject to a ceiling of capital cost of Rs.650 per tonne of cement.

21.3.5 The Government accepted the Tariff Commission's recommendations broadly, except that the rehabilitation allowance of Rs. 4 per tonne was disallowed, as also certain other costs recommended by the Tariff Commission, e.g. freight on limestone. The principle of escalation was accepted though not all elements thereof recommended by the Tariff Commission, with the further condition that cost escalation was to be allowed once a year. Retention prices of cement for most producers, as permitted from time to time since April 1969, under the uniform pricing system, 2/ are indicated below:

					(per tonne)
1.	From	16.4.1969	to	14.9.1973	Rs.100.00
2.	From	15.9.1973	to	1.8.1974	Rs.110.00
3.	From	2.8.1974	to	14.9.1974	Rs.134.20
4.	From	15.9.1974	to	30.9.1975	Rs.139.15
5.	From	1.10.1975	to	30.6.1976	Rs.157.75
6.	From	1.7.1976	to	31.10.1976	Rs.161.40
7.	From	1.11.1976	to	30.9.1977	Rs.159.55
8.	From	1.10.1977	to	30.6.1978	Rs.161.12
9.	From	1.7.1978	to	6.12.1978	Rs.165.82
10.	From	7.12.1978	to	date	Rs.168.91

21.3.6 While the current ex-works retention price of cement is Rs.168.91 per tonne, the f.o.r. destination price of packed cement (at rail head) comes to Rs.293.26 per tonne; and the final retail price payable by the consumer around Rs.414 per tonne - with variations here and there for different States. The break-up is given below:

	Rs. per tonne
a) Ex-works retention price	168.91
b) Selling expenses including commission	3.00
c) Freight	59.44*
d) Provision for subsidising import	30.00
e) Provision for implementation of the Award of Arbitrators relating to wage increase of cement workers	13.38
f) Towards subsidy for the use of furnace oil in lieu of coal	18.53
g) FOR destination price for naked cement [(total of (a) to (f)]	293.26
h) Excise duty	65.00
i) Surcharge	3.25

2/ Some producers have been granted a different price. With effect from 1.1.1979, this has been further differentiated.

	Rs. per tonne
j) Packing charges	52.50
k) FOR destination price of packed cement [(total of (g) to (j)]	414.01

(*includes 0.25 for the establishment of the Cement Controller)

On this the sales tax, and retailers margin (including handling charges) have to be added to give the consumer price which, on an average would give a controlled price of cement at approximately Rs. 23 per bag (or Rs.460 per tonne approximately).

21.3.7 It would be seen that the ex-factory price of cement works out to less than 40 per cent of the final retail price to the consumer, the three other most important elements being excise duty, railway freight, and packing charges, and a fourth substantial element now for subsidising imported cement. Government's reluctance to agree to relatively small increases in the price of cement - even those recommended by the Tariff Commission - has to be seen in the light of the above, such increase being insignificant in relation to other cost elements insofar as the consumer is concerned.

21.3.8 The slow growth of capacity after 1974 has highlighted the lack of adequate investment in the cement industry in response to the retention prices as fixed under the Tariff Commission formula. Apart from the low retention price finally fixed for cement by the Government, the contention of the industry has been that the Commission had not provided any automatic escalation for variations in the major elements of cost, viz. wages, dearness allowance, price of coal, price of power, freight on coal and limestone; compensation for the use of fuel oil when coal is not available, and freight pooling to cover the cost of road transport to district towns not connected by rail. The controlled price did not allow for adequate generation of internal resources to permit even modernisation and improvement of production techniques.

21.3.9 The rigidity in the system of price control appears also to have precluded two types of innovation, first, by way of split location in respect of cement production i.e. production of clinker near the source of limestone, which is easily transportable even in open wagons, and the final crushing of the clinker into cement near the centres of consumption; and secondly, bulk transportation of cement to project sites where cement could be fed directly into giant-sized concrete mixers as for large dams, multi-storeyed buildings, etc.

21.3.10 Lately, it has been decided by Government that the ex-works price in case of new cement units (and the expansion of existing ones) should be so fixed as to give a post-tax return of 12 per cent on the net worth, comprising share capital, reserves and surplus, the net worth being calculated at a maximum of Rs.230 per tonne of installed capacity. The new price formula has become effective from October, 1977.

21.3.11 Despite the rigidity involved in the system of price control, the Committee has come to the conclusion after considering the available information at its disposal that

total de-control of cement at this juncture cannot be contemplated because of the following serious consequences likely to follow any such move:—

(a) In the immediate future, there would be a sudden glut of cement in the South and in Gujarat, and an acute shortage in the far-flung (underdeveloped) areas of the North-East and the North, in particular, all the North-Eastern States, Jammu & Kashmir and Himachal Pradesh. In the short period, prices in the far-flung areas could rise to such dizzy heights that the spread in the levels of prices (in different parts of the country) may become socially unacceptable.

(b) At the same time, producers in the South may find themselves suddenly left without well-planned and well-directed movements, and established markets. In this background, a complete reversal of policy may throw the entire system out of gear and to more than normal transitional difficulties.

(c) Since the pattern of production is based on the system of pooled freight, nurtured over a decade, any sudden change in the system is likely to adversely affect many existing producers in the South who have been encouraged to set up cement capacity on the basis of certain anticipations.

21.3.12 However, in order to create a viable, permanent and broad-based production base, which would meet the increasing demand in the years to come, the Committee suggests that in fixing retention prices for different factories, special consideration should be given to the higher production costs (arising from the use of second grade limestone) but significantly lower transport cost of cement plants in the deficit areas of the North and the East. This would have two advantages:

(a) it would help the second grade limestone in the far-flung, deficit areas to be utilised, and lead to a better dispersal of the cement industry; and

(b) it would reduce the need for transport, and in the long run, reduce the overall cost of cement production to the economy.

This would also open the way to doing away with price control at some future date, when cement capacity and cement production catch up with demand after a few years.

21.4 Freight Pooling System

21.4.1 One of the major elements in the present policy of control over cement prices is the freight pooling system,. This is operated through the Cement Regulation Account, operated by the Cement Controller. Under the extant system, Government determines a "pooled freight" on an all-India basis, and this is given effect to by the announcement of a price of cement f.o.r. "destination", (rather than ex-factory). The Cement Regulation Account also facilitates the pooling of the price in respect of new units, set up recently, which are granted an extra price of Rs. 10 per tonne, as well as the subsidisation of imported cement. Despatches of cement are made by manufacturers at the f.o.r. destination price; actual railway freight may be either higher or less than the pooled freight depending on the destination point, and such manufacturers as have incurred a higher freight are reimbursed the difference from the Cement Regula-

tion Account which is credited with the difference between the higher freight collected by cement manufacturers on relatively short haul despatches in relation to the freight actually paid by them.

21.4.2 In practice, while cement manufacturers are quick to realise payments due to them (as the difference between freight incurred and the pooled freight), the credits to the Cement Regulation Account are either made tardily or not made at all by some producers of cement. There are large arrears due to the Account, some over long periods (vide, Annex 21.3). Apart from the units defaulting on this payment over long periods, even normally, the cement manufacturers get the benefit of an interest-free loan from Government by delaying credit to the Cement Regulation Account in respect of payments due on this account. As of September 1978, as much as Rs.4.5 crores were overdue for more than one year. Since the Cement Control Order has been issued under Section 18(G) of the IDR Act, the Cement Controller has no authority to penalise any defaulter except to file a suit in a court of law, which is a long and frustrating process. The Committee feels that if the system is to be operated, it should be put under the umbrella of the Essential Commodities Act.

21.4.3 A major defect of freight pooling and the determination of an uniform fair ex-works price of cement has been that this system has acted as a major disincentive to the setting up of cement manufacturing capacity in the North and the East which are heavily deficit in cement, and has led to the concentration of cement production in the south, endowed with relatively superior quality limestone. This has already been commented on, and the Committee would reiterate that the defect of the system can be got over by allowing factories in the deficit areas a higher retention price, while maintaining the principle of an uniform f.o.r. destination price, so as to minimise the cost of transport in the long run.

21.4.4 The Committee notes in this connection that the average lead for the movement of cement by rail has increased from 456 Kilometres in 1970-71 to 743 Kilometres in 1975-76. Cement grade limestone deposits have been found in Assam, Himachal Pradesh, Maharashtra, Meghalaya, U.P., Jammu and Kashmir and Nagaland. These deposits are not of the best quality, as found in Saurashtra or Tamil Nadu. However, if cement plants are set up in these areas, there would be no need to transport either cement or limestone over long distances, and thereby reduce the burden on railway transport. The Committee would therefore recommend, without dismantling the existing freight pooling system, that the existing price formula be suitably modified in order to provide incentive for setting up cement plants in deficit areas.

21.5 Public sector investment in cement

21.5.1 The Committee believes that, where Government has to peg prices of essential commodities in the larger national interest, if should work out a programme for the creation of additional capacity in that sector so that shortages do not persist. Public investment is one possibility in this connection. The Cement Corporation of India was set up by Government in January 1965 with a view to setting up cement capacity, particularly in deficit areas. But Government action in regard to getting the Cement Corporation to live up to its task has not matched its original intent. The Cement Corporation has not been in possession of adequate funds, nor has it been given the necessary organisational build-up, to undertake the investment required to make up the deficit in cement supply, or even speed up production in the deficit areas.

21.5.2 In the matter of creation of capacity by the Cement Corporation of India, the Committee can do no better than to quote from the Sixty-ninth report of the Parliamentary Committee on Public Undertakings (1975-76) of the Fifth Lok Sabha on the Cement Corporation of India Limited, as follows:—

> "The Committee note that the Cement Corporation of India (CCI) was set up in 1965 to create cement manufacturing capacity of 5 million tonnes by the end of the 4th plan .... the target set for the CCI was scaled down from 5 million tonnes to 1.6 million tonnes .... subsequently in July 1967 Government asked the CCI to set up cement plants in deficit areas only as the private sector was not expected to give its full cooperation in this regard, but in June 1972 the restriction laid down on the CCI to invest only in the deficit areas was removed .... After clearing two projects viz., Mandhar and Kurkunta, each with a capacity of 2 lakh tonnes, the Corporation was advised by Government to go slow with its projects. The Committee find that in the short span of time between 1965 and 1972 the policy of the Government in regard to the CCI changed rather frequently with the result that no time bound programme for setting up capacity .... could be laid down and acted upon by the Corporation." 3/

21.5.3 The Committee notes that there is today a subsidy required in respect of imported cement, the price of which is significantly higher than the price of indigenous cement. The import price is more than three times the price paid to cement factories in India, and the annual subsidy on imported cement today is around Rs.60 crores. Since the retail price of cement is pooled the higher cost of imported cement has to be absorbed in the price of indigenous cement sold within the country. The retail price of cement produced within the country has to be raised by Rs.30 per tonne in order to pool the price of indigenous and imported cement during 1979-80. The cost to the economy, of delays in the creation of capacity for cement manufacture within the country, can be easily seen.

21.6 Distribution of Cement

21.6.1 The distribution of cement has also been subject to controls almost throughout the post independence era either on a formal or on informal basis.

21.6.2 Since 1st January 1968 control over the distribution of cement has been exercised under the Cement Control Order of 1967, issued under the IDR Act. The system has of late undergone significant changes with the gradual introduction of a new system - to be described later - with effect from October, 1978.

21.6.3 The system as it existed throughout the country until September 1978, and as it exists even now in some areas is briefly as follows. The entire distribution of cement was determined by the Cement Controller who has four regional offices to deal with the four zones into which the country is divided. The Central Government has powers, under the Cement Control Order, to control the sale and transport of the entire cement produced in the country. The main objectives of the control on distribution, as exercised until September 1978 were: (a) to ensure equitable distribution of cement not only as between priority uses (e.g. project construction) but also as between surplus and deficit States including far-flung areas; and (b) to rationalise movement and to minimise transport costs.

3/ Report of the Committee on Public Undertakings (1975-76) 5th Lok Sabha, on Cement Corporation of India Ltd., p.13.

21.6.4 The distribution of cement was grouped into the "reserved category" and the "free sale category". The former consisted of demand from the Central and State Government departments and undertakings and priority industries which required cement regularly and in large quantities. The system had generally worked in the following manner.

21.6.5 The Cement Controller used to make an assessment of the likely output of cement every quarter. The allocation for cement was calculated on the basis of —

a) Offtake in the past five years;

b) Offtake in the past five quarters;

c) Offtake in the last quarter (excluding any special allotments made); and

d) Requirement in the coming quarter on the basis of indents sponsored.

The maximum of the four estimates for all States was taken, and aggregated for the entire country. Thereafter, there was a pro-rata cut applied to all, on the basis of estimated availability.

21.6.6 The available output of cement used to be allocated (roughly on the above basis) to the following categories:

a) Central quota - which was roughly 20 per cent of the total;

b) State quota - comprising 80 per cent of the total of which roughly half used to be for State Governments and Government sponsored demand, and half for free sale.

21.6.7 Incidentally the "Reserved Category" comprising both the Central and State Governments offtake accounted for only some 41 per cent of the total sales in 1968. From this figure, the percentage of sales of cement under the "Reserved Category" increased to about 64 per cent in 1973; the percentage declined to a little above 45 per cent in 1976, and had again, of late, increased to around 60 per cent.

21.6.8 Under the free sale category, each manufacturer used to be allotted definite marketing areas in which he could effect sales without restrictions. The producer was allowed to build up his own stockists in his marketing zone. The Cement Controller took care to ensure that no factory or company was given any exclusive marketing zone, thereby attempting to prevent a monopoly of cement supply by any manufacturer in any area. Market zones were also so arranged as to optimise the use of transport for moving cement from surplus to deficit areas.

21.6.9 A new distribution system has been introduced in most parts of the country from October 1, 1978. The main objective of the new distribution system is to vest full responsibility for the distribution of cement to the State Governments. The objective of the new cement distribution policy is claimed to be to curb black marketing in cement. The main features of the new distribution system are as follows:

(a) The stockists of cement will be delinked from the producer. All stockists and dealers have become agents/dealers of the State Governments rather

than representatives of the cement manufacturers. Many existing stockists have been eliminated and new ones appointed.

(b) There is licensing of stockists by the States and there is prohibition against re-sale of cement by any allottee.

(c) Irrigation and power projects are to be allotted 100 per cent of their requirements, the rest of cement users being limited to what is left. After meeting the Central Government requirement (of 20 per cent), bulk allocations are to be made to State Governments. The entire distribution of cement by the States to private parties is to be determined by the States, and most States have initiated a full-scale permit system for every bag of cement.

21.6.10 Many State Governments are reported to have appointed unofficial committees at the district level to allocate cement and to oversee the monitoring of the distribution system. Although the system is yet to settle down, and though it is too early to assess the working of the new scheme, nonetheless an examination of the working of the system in two States, Maharashtra and Kerala, where the system has been claimed to be working well, has pointed up several difficulties in the actual working of the scheme. These are briefly indicated later.

21.7 Evidence received and review of the system

21.7.1 As far back as 1974, the Tariff Commission had pointed out that in times of shortage of cement, the following malpractices are resorted to by the stockists/dealers:

a) Charging prices higher than the controlled price of cement

b) Collecting full payment in advance for the supply of cement which is thereafter not supplied as per delivery schedule required, thus upsetting construction schedules

c) Tampering with the packing and adulteration

d) Additionally - and this has no relevance to stockists or dealers - leakages of cement from the Government quota.

21.7.2 In the evidence tendered before the Committee, by distributors and dealers of cement, it was represented (a) that the retail margin permitted to dealers was too small to permit stockists of cement to meet all their expenses in the normal course; and (b) that in regard to free sale supplies, there were ways in which the manufacturers got the cream of any profits to be made on sales above the controlled price. According to the Cement Stockists Association of one region, the beneficiaries of black market operations have in the past been substantially the manufacturers, the rough distribution of the "margin" between the manufacturer and the stockist being 3:1. The manufacturer also used to insist on substantial advance deposit payments which they used as working capital. They also changed dealers frequently for reasons of their own, and not because of any profiteering by the stockists and dealers. In answer to a query addressed to all cement manufacturing units, three manufacturers have indicated that they had a total number of 1979 cement stockists, and that during 1977-78, they had cancelled the franchise of 104 and granted 97 new ones. As a result, the stockists state that they have to indulge in "wheeling-dealing" in order to merely survive.

21.7.3 The system now stands completely changed, but even under the earlier system, profits made by the owners/managers of the manufacturing units did not accrue to the corporate bodies; the black market profits would therefore have been shared between the executives of manufacturing companies and the stockists and dealers. The pernicious effects of such a system, in terms of black money generation through controls are too well known to be recounted.

21.7.4 One of the fall-out effects of the erstwhile system of distribution was that the cement factories were able, under all circumstances, to despatch their entire free sale quote first, and then meet other indents based on allocations made by the Cement Controller. Indeed, the system - as revealed by a special study conducted by the Administrative Staff College, Hyderabad, on behalf of the Committee - permitted the cement manufacturers to allocate their own priorities among the allottees of cement.

21.7.5 A major source of leakage of cement, according to the Cement stockists and distributors is from Government projects, where the contractors engaged in construction do not use the quantum of cement allotted and siphon it off for sales in the black market.

21.7.6 The present system of cement distribution, introduced with effect from October 1978, is also likely to create a number of difficulties. These are briefly indicated below:—

(i) According to informal prognostications made by the cement control authorities, the pattern of allocation of cement hereafter is likely to reduce the availability of cement for the ordinary householder. The following pattern of cement allocation, against the likely availability of cement, on a quarterly basis, has been forecast for 1979:—

Supply

	(lakh tonnes)
1. Indigenous production	50
2. Imports (at a maximum)	5
3. Likely availability	55

Use

	Pre-October 1978		Post-October 1978	
4	Central quota	10	Central quota	10
5	DGTD units, Nepal, Bhutan etc.	5	DGTD units, Nepal, Bhutan etc.	5
6.	State quota	20	State quota	40
7.	Of above, irrigation and power projects	10	Of above, irrigation and power projects	13

8.	Balance available to States for other projects	10	Balance available to States	27
9.	Free sale quota to cement factories for sale to public	20	Quota for sale to be determined after meeting requirement of other state projects	?
	Total	55		55

If the States keep 10 lakh tonnes as earlier for other projects, the availability for the public would be only 17 lakhs tonnes, as against 20 lakh tonnes of free sale cement available earlier. As a result, the use of cement by the public would be squeezed. (The Cement Controller has therefore recently estimated a deficit of 3 million tonnes of cement annually, against the earlier estimate of 2 million tonnes.)

(ii) In practice, from the experience of the functioning of the new system during October-December 1978, it seems what has happened is somewhat different. Since the allocations for irrigation and power projects have been made on the basis of forecasts made (based on budgetary allocations), there have occurred significant shortfalls in actual offtake, resulting in certain unexpected imbalances. Many project authorities have not lifted their allotment, while some others have run seriously short of cement. This could, of course, be deemed to be an essentially transitional problem, but it highlights the problem attendant on rigid allocations based on "demands".

(iii) Another transitional problem has arisen (in Maharashtra and Kerala) owing to the dèlay in constituting the local "advisory committees" to decide on cement allocations. It may be emphasised that over a longer period, the present system envisages total control by local authorities in regard to every bag of cement. The possibilities of patronage and of attendant problems appear to have been generally ignored in this connection. To cite an example of the "teething" problems - which may well become a permanent feature of the present system - in one Taluqa in Maharashtra, in respect of which the Committee obtained the required information, in mid-January 1979, the functioning of the system during October-December 1978 was as follows. The "advisory committee" for cement allocation consisted of the local MLC, the executive engineer of the State PWD, and the Tehsildar. Until mid-January, 1979, this committee had disposed of 24 applications for cement allotment (in three months), and 511 applications were pending. The 'sanctions' amounted to 6820 bags for new construction and 4815 bags for repair jobs. The quantum involved in pending requests was 24102 bags. The malfunctioning of the system was further highlighted by the actual deliveries: only 845 bags for new construction and 1015 bags for repair had been delivered upto mid-January 1979. The explanation given was that the Taluqa in question did not have any retail depot; and the retailers did not find it worthwhile to

despatch cement in little driblets to the allottees, since the truck charges for such small quantities to be despatched could not be covered by the margin allowed. Another feature of the system reported to the Committee was that the allocations by the "advisory committee" were made only against architects' recommendations, the going cost of which was then Rs. 10 per bag. It has also been reported that as a result of a combination of non-allocation and non-delivery of cement, the black market price of cement in the Taluqa in question - where cement was available from Governmental bodies which obtained cement directly from the State Government allocations - was Rs. 60 per bag.

21.7.7 It would be apparent from the above example, that the control system was introduced without devising any effective machinery for implementing the control. In fact the Committee has serious doubts as to the feasibility of implementing total control over cement distribution , in a country as large and as dispersed as India. Cement is an item required for all manner of jobs, some of which quite small, involving minor repairs, requiring only a small quantum of cement. Like any other permit system, the test of genuineness of requirements - in this instance, architects' certificates - has already led to corruption in the issue of such certificates.

21.7.8 The present system of distribution is also designed to meet a problem of scarcity. State Governments are interested in fair distribution of an item in short supply. They should not be blamed if they are not able to resolve the problem of marketing in a situation of surplus.

21.7.9 The Committee is of the view that the new distribution system adopted should be reviewed and an independent Central review and monitoring system introduced after discussion with the concerned State Governments. It is also felt that there should be rethinking in regard to the allocative procedure, and that some procedure should be evolved to ensure that the desire to allocate every bag of cement only for priority uses does not lead to the emergence of a flourishing black market, or of rampant patronage. Dual pricing is one solution; but there is no reason to suppose that all "allocations" of cement are for priority purposes which call for a "concessional" price. The allocative function of price can be too easily forgotten in a theoretically neat planning framework.

21.8 Problems and options

21.8.1 In the light of the gap that is likely to continue between demand and indigenous production of cement over the next several years, the following policy options are available:—

i) To meet the deficit by import. It has been seen earlier that this is not likely to be a viable solution because of the physical limit to port capacity for import, though in the short period imports could reduce the gap.

ii) To increase cement availability by encouraging the manufacture of pozzolana cement. One possibility would be the setting up of capacity for the grinding of cement, to be fed by the import of clinkers. The indigenous manufacture of clinkers, which is likely to have a longer gestation period than cement grinding capacity, could be set up later. It is understood that this policy is already under consideration of Government and the Committee would

endorse this approach. Incidentally, since clinkers can safely be transported in open wagons, this would facilitate easier movement. In this context the Committee would suggest encouragement of split-location of cement plants - with the grinding plants near the consuming centres and clinkers near the sources of raw material.

iii) To provide, by statutory means, the increasing use of substitutes like lime mortar, and if necessary, to subsidise them as they have increasingly become unavailable and high priced. Apart from encouraging the use of non-cement building materials, Government can also give a lead by using such materials wherever feasible.

iv) To go in for a system of differential pricing of cement. One danger in operating such a system is that the list of priority users keeps growing and many users given a concessional price do not really deserve it. Not all Government requirements, for instance, can be deemed to be of priority. The construction of five-star hotels, or the construction of cemented pavements are certainly not priority uses of cement.

21.8.2 The Committee feels that efforts should made to economise on the use of cement, and that it should be reserved for essential uses rather than for ostentatious or low priority uses, e.g. for the construction of fountains in cities, cementing of road-side pavements, cementing of boundary walls etc. Although the price of cement could play a part in restraining demand, unfortunately, owing to the present unequal distribution of income, as also the pattern of expenditure in the country, demand for low priority uses does not necessarily get choked off by an increase in the prices. There should temporarily be an absolute ban on certain wasteful uses of cement.

21.8.3 The relatively slow growth of the cement industry in the past has been due in part to the low price allowed for cement within the country, as an "essential" item the price of which should be kept low. The Committee feels that it would not be justifiable to make cement available at low price for purposes such as the construction of five-star hotels - requiring a lot of cement - at the cost of the cement industry.

21.8.4 One of the methods adopted for encouraging investment in a priority industry, which has been tried successfully in the past for steel-as well as for cement, has been to allow an extra margin which may be 'funded' and which may be available for purposes of investment. The Committee feels that this should be again tried out for the cement industry, the amount being released for approved purposes by the Central Government. A special point to note in this connection is that the ex-factory price of cement is only around 40 per cent of the final consumer price of cement. A slightly more realistic price of cement would, therefore, not raise the retail price of cement to unacceptable levels, while at the same time giving the cement industry sufficient profits for purposes of reinvestment.

21.8.5 The Committee notes that there are numerous other problems which beset the cement industry. For example, there has in the past been a rigid control over the import of technology for pre-calcination of limestone. While there are claims and counter-claims in regard to the availability of indigenous technology in this area, considering the

cost of the import of technology and the benefits likely to accrue in terms of higher output and saving in investment cost, the Committee sees no reason for holding back the import of technology for this purpose. In fact, there could be considerable foreign exchange saving by the increase in output at relatively low investment cost. At any rate, this is a choice which, the Committee feels, should be left to the cement manufacturers. At the same time, every facility ought to be given and there should be pressure for improvements in production technology already known as for instance, for conversion from the wet to dry process which would increase output even by conventional means. The Committee feels that any facilities given for such purposes should be accompanied by definite conditions in regard to the requisite improvement being carried out.

21.8.6 A major problem which confronts the cement industry today is the lack of finance for any substantial increase in capacity, from internal resources. The Committee understands that about 13 million tonnes of additional capacity would be required to meet the demand for cement by 1982-83. If this capacity were to come only from new units, the investment required would be around Rs.1000 crores. In addition, the Cement Manufacturers Association has indicated that 30 out of the 55 existing cement units are more than 20 years old, and require substantial modernisation and rehabilitation which may cost around Rs.200 crores. Data on profitability of cement and retained earnings of the cement industry indicate that the industry cannot generate sufficient internal funds for reinvestment under the present system of price control. The Committee has noted separately that replacement requirements of most industries cannot be financed out of historical depreciation provision which is permitted. In the light of the above, the Committee would recommend that the cement industry should be granted additional allowance in the price which should be funded and used only for the expansion of the cement industry. An additional allowance of say Rs.20 per tonne or Rs. 1 per bag of cement, if funded, would today give an additional investment resource of Rs.40 crores per annum which can help to create new capacity of 5 lakh tonnes of cement per annum, including the required infrastructure. For expansion schemes, the capacity creation would be much larger. It is, however, of the essence that any such additional price would require to be funded for replacement/expansion, and released under Central Government direction for such approved purposes.

Chapter 22

PAPER AND NEWSPRINT

22.1 Introduction

22.1.1 The first paper mill in India was established in mid nineteenth century, at Serampur in West Bengal. By 1911, production of paper rose to 26,800 long tons. Thereafter the growth of the industry was slow and halting till 1925, when the industry received tariff protection. Although tariff protection to the industry was withdrawn in 1947, the industry had expanded to reach a capacity of 1,38,000 tonnes per year by 1950. At present there are 87 paper mills in the country with an installed capacity of 12,64,000 tonnes per year.

22.1.2 For a better understanding of the control over paper industry, it would be useful to classify paper production as follows:-

(a) cultural varieties required for writing, printing, etc.;

(b) industrial papers required for packing and other uses; and

(c) newsprint required by newspapers.

22.1.3 In the growth of paper production in the country, three distinct phases can be discerned - a phase of buoyant growth, followed by a falling yet nonetheless a satisfactory rate of growth, and a period of a very modest rate of growth. Between 1950-51 and 1960-61, production increased at the rate of 11.7 per cent per annum. This was followed by an annual growth rate of 8.7 per cent over 1961-62 to 1968-69. During the period 1969-70 to 1977-78 there was further deceleration of the growth rate to 3.7 per cent per annum. Although production has increased faster thereafter, shortages have persisted throughout the seventies.

22.1.4 The supply of paper has for quite some time fallen short of demand, particularly in respect of cultural varieties of paper, and Government has had to control prices sometimes formally and at times on an informal basis. From the point of view of "reasonableness" of prices and availability, the focus of attention of Government has lately been on the supply of white printing paper, required for the production of text books and exercise books used by the student community. In the past, the price of indigenous newsprint has also been rigidly regulated by Government, at uneconomic prices. There has so far been only one public sector unit producing newsprint.

22.1.5 The paper industry was first put under control in 1942, though newsprint prices had been put under control even earlier, in 1941. Government arranged with the industry in 1942 for prices to be negotiated and fixed for its purchases. A series of formal control orders on paper were issued over 1944-46 as indicated below:-

(i) The Paper Control (Distribution) Order of June, 1944.

(ii) The Paper Price Control Order of 1944.

(iii) The Paper Control (Economy) Order of 1944.

(iv) The Paper Control (Prices of Board) Order of August, 1944.

(v) The Paper (Prices of Imported Paper) Control Order of September, 1944

(vi) The Paper Control (Production) Order of September, 1945.

(vii) The Paper Price Control Order of November, 1945.

(viii) The Paper Control (Economy) Order of December, 1945.

(ix) Order controlling Sale and Disposal of Paper by certain Mills, of September, 1946.

22.1.6 By 1945, the difference between the Government purchase prices and prices for the civilian market had widened considerably and in November, 1945, 'civil prices' at levels higher than Government purchase prices were fixed by adding a few additional cost elements to the latter. In 1947, the question of paper prices was referred to the Commodities Prices Board which recommended marginal increases. The question was again referred to the Tariff Board and a new set of prices was introduced in February, 1949, for civil purposes.

22.1.7 Statutory price control by way of the Paper Price Control Order, 1945, was withdrawn in 1950. Between 1950 and 1958 the industry revised prices five times. As a result, Government imposed control over paper prices - on the basis of recommendations made by the Tariff Commission - with effect from January 1960. Thence untill May 1968, there was only a relatively small increase in paper prices. Control over prices was removed in May 1968. Nonetheless, as seen earlier, the rate of growth of capacity and output of paper has been quite small in the seventies.

22.1.8 Paper is a capital intensive industry. The capital cost per tonne of paper has escalated from about Rs.4000 in the late sixties to around Rs.13,000 lately (as per estimates of cost of two public sector projects currently being set up). As a result of both the high capital cost per tonne as well as substantial economies of scale, investment requirements for setting up a modern paper plant are very large. Investment in the paper industry, as mentioned before, has slackened since the early seventies. Owing to the heavy investment required for paper, the slow pace of investment in the private sector, and the fact that paper is a mass consumption item, the Government of India constituted the Hindustan Paper Corporation (HPC) in 1970 to create capacity for the production of all kinds of paper including newsprint. Currently the following four projects are under implementation by the HPC:—

(i) a newsprint project in Kerala;

(ii) an integrated pulp and paper project in Nagaland; and

(iii) two integrated pulp and paper projects in Assam.

These four paper projects will add more than 2 lakh tonnes to the capacity of paper and newsprint in the next two or three years. The HPC is also running the Mandya National Paper Mills, Mysore,, and has recently been asked to take over the management of the India Pulp Paper Mills, near Calcutta.

22.1.9 The slackness of private investment in the paper industry has to be attributed to reasons other than those of relative profitability. In fact, gross profit as a percentage of total net assets has gone up from 5.7 per cent in 1968-69 to 17.7 per cent in 1975-76 and was as much as 22.4 per cent in 1974-75 1/. One of the reasons for the slackness of investment is that the paper industry has a long gestation period, and the investment requirements are substantial. Also, even though, according to the February 1973 policy the paper industry is one in which large industrial houses have been allowed to operate, in actual application of the policy, there has been delay, and even departure from the announced policy, and a number of applications have been held up in the early seventies for one reason or the other. During the seventies, several large houses having interest in the paper industry have set up paper manufacturing factories abroad, but not in India. It is noteworthy that as of now, about three fourths of the installed capacity in paper is controlled by 7 large industrial houses.

22.1.10 Recent experience indicates the presence of cartel-type activities and tendencies in the paper industry, and there is reason for the presumption that there has been tacit collusion between the major producers so as to manipulate the market. This may be seen from the following developments in the early seventies:-

(a) Sudden, sharp changes in the product-mix, and reduction in the output of varieties which are expected to be price elastic, with a view to creating temporary shortages. Thus, for example, although total output of paper remained roughly the same between 1972 and 1973 - at around 8 lakh tonnes, with only a very marginal decline in total paper production - the production of white printing paper fell from 1. 22 lakh tonnes in 1972 to 0. 88 lakh tonnes in 1973.

(b) Frequent changes in the "nomenclature" without changing either the product or the quality thereof, with a view to raising prices. This was extensively resorted to around 1973 and 1974.

(c) The emergence of a significant premium over list prices in respect of the most common varieties of paper, supplies being made only on payment of a premium under the table, known as "on money" in the paper industry. This is further elaborated below.

22. 2 Generation of black money in the paper industry

22. 2. 1 There can be no clear evidence of the generation of black money in any sector. However, it was widely reported by consumers of paper that during 1973-74, the 'on money' collected by the major paper manufacturers (for most varieties of paper) ranged between Rs. 1500 and Rs. 2500 per tonne. Circumstantial evidence of this does exist. There was a spate of sharp increases in list prices of paper by all major paper manufacturers within the space of a week or 10 days in June 1974, after rumours of the impending take-over of the trade in paper by Government. The price increases announced by one major manufacturer for different varieties of paper in June 1974 were as follows:-

(a) Rs. 3600 to Rs. 4800 per tonne

1/ Source : Various issues of the Reserve Bank of India Bulletin.

(b) Rs. 3700 to Rs. 4800 per tonne

(c) Rs. 3700 to Rs. 5300 per tonne

(d) Rs. 4350 to Rs. 6300 per tonne

(e) Rs. 3400 to Rs. 4800 per tonne

22. 2. 2 These price increases reflected essentially a part - perhaps a considerable part - of the 'on money' being collected at that point of time by manufacturers. As indicated earlier, similar price increases were announced by all other paper manufacturers within the space of a week or ten days in June 1974. It would be seen that the price increases ranged between 30 to 50 per cent for most varieties of paper. The simultaneous increases in prices, by such large amounts, within the space of only one week by all the large manufacturers indicate the strong possibility of collusion, and cartel-like behaviour in the matter of price determination. The difference between the two sets of prices, namely, pre-June and post-June 1974 prices, indicates also the extent of "under the table" transactions in the paper industry prior to these price increases.

22. 2. 3 Even if the average 'on money' of paper be estimated at the conservative figure of, say, Rs. 1000 per tonne - the above figures indicate the possibility of a higher premium over list prices - for an output of approximately 8 lakh tonnes of paper, the generation of black money in one year alone (1973-74) may be estimated to have been as much as Rs. 80 crores. It is significant to note that this practice emerged during a period when there was no control over the price or production or distribution of paper.

22. 3 Price and production control over paper from 1974

22. 3. 1 In August 1974, two control orders were issued by Government under the Essential Commodities Act. The first, entitled 'Paper (Control of Production) Order' stipulated that paper factories with an installed capacity of 25 tonnes or more per day would have to produce at least 30 per cent of their output in the form of white printing paper, unless specifically exempted either wholly or partially, by Government (for reasons of limitations of machine capacity or for other valid reasons). The Order also stipulated the production of another 27 per cent of paper by way of other varieties of cultural paper, such as cream wove (16 per cent), offset and litho (6. 5 per cent), coloured printing (1. 5 per cent), duplicating (2. 5 per cent) and typing paper (0. 5 per cent). Factories with MG machines (designed to produce industrial paper) were freely granted exemptions. By informal agreement, the price of white printing paper was fixed at Rs. 2750 per tonne. The prices of other cultural varieties of paper were not controlled, and it was expected that the stipulation regarding production of minimum percentages of other cultural varieties of paper would forestall the creation of artificial shortage of any variety of paper, for manipulating the market.

22. 3. 2 The provision concerning minimum production of 27½ per cent of cultural varieties of paper other than white printing paper was withdrawn in September, 1976 but was re-introduced in a modified form in March 1978. The percentage of white printing paper remains unchanged at 30, the percentage of other cultural varieities having been raised to 33 from 27, with a minimum of 20 per cent being stipulated for cream wove paper.

22.3.3 The second control order issued in August 1974 - entitled Paper (Conservation and Regulation of Use) Order' - placed certain restrictions on uses of paper for making calendars, diaries, greeting cards, advertisement posters etc. The Order was designed to reduce the consumption of paper for purposes then deemed relatively less essential. The Order led to sudden decline in the demand for art paper. It was also difficult to monitor the control order. In view of the improved supply of paper, the Order has been kept in abeyance since 1975 end.

22.3.4 Thus, apart from (informal) control over the price of white printing paper, there is at present no price control on paper. The concessional price was intended to apply for approximately 2 lakh tonnes of paper out of the total output of around 8 lakh tonnes. It may be stated that the price of Rs. 2750 per tonne fixed in 1974 for white printing paper has remained unchanged over nearly five years. This indicates rigidity in the application of price control, with attendant problems noted elsewhere.

22.4 Distribution of white printing paper

22.4.1 The distribution of white printing paper, made available at a concessional price of Rs. 2750 per tonne has been controlled informally. The annual demand for white printing paper (in 1974) to be sold at the concessional price was estimated at around 200,000 tonnes. Roughly 80,000 tonnes out of this quantum were to be supplied to Government as per DGS&D orders. The balance of 120,000 tonnes of paper was supposed to meet the requirements of the student community, for which the procedure of distribution evolved was as follows.

22.4.2 A Central Co-ordination Committee was constituted in the Ministry of Industry, with representatives of the Education Ministry, paper manufacturers, publishers of text-books, manufacturers of exercise books and paper dealers as members. The Education Ministry was made responsible for collecting and collating the requirements of all States, and for the allocation of 1.2 lakh tonnes of white printing paper. Though allocations were supposed to be with reference to the number of students in each State, together with estimated requirements of paper for text-book production, in actual practice, the allocations made were ad hoc and somewhat arbitrary.

22.4.3 At the Centre, only Statewise allocations were made. State level committees were constituted in all the States, usually headed by the Education Secretaries, to work out the (quarterly) allocation of paper in favour of specifed allottees (like the text-book producers, manufacturers of exercise books, etc.).

22.4.4 A small group was constituted with secretarial support provided by the Hindustan Paper Corporation - a public sector undertaking - to work out the linkages between factories and the sponsored demands. The required quantum of paper was to be supplied by the factories after completion of financial arrangements by the allottees.

22.4.5 The above system has worked reasonably well in respect of paper required for text book production partly because most text books are now being printed and published under the aegis of Government, and for paper for examinations, required by the educational institutions directly. There are however, reports of some black marketing of paper released for the production of exercise books. The listing of exercise books as a separate item

declared "essential" under the Essential Commodities Act has not eliminated the leakage of white printing paper for unauthorised uses. Another defect of the system has been the general lack of control over actual despatches by the mills in accordance with the allocations of paper made by the State level committees. Paper allocation has, in any case, been somewhat arbitrary.

22.4.6 In a study commissioned by the Committee, and conducted by the Administrative Staff College, Hyderabad (ASCI), it has been found that the allocations of white printing paper have not only varied sharply as between different States - when calculated on a 'per student' basis - but also from year to year, for different purposes and for different States. Annex 22.1 indicates the per student release of white printing paper — obtained by dividing the quantum of paper, first, by the total student population, and secondly, by the urban student population, on the assumption that rural students did not get benefit of the allocation of white printing paper. The Committee feels that the allocation is capable of being handled with greater precision by proper planning, in terms of requirements of text books and exercise books separately.

22.4.7 Insofar as exercise books as well as text books published by private parties are concerned, the allocation of white printing paper has not been accompanied by any monitoring of the end-use of the paper so released. The following table gives the broad percentage allocations of white printing paper for different purposes over the three years 1974-75 to 1976-77 :-

Table I

Allocation of white printing paper
(Percentages)

	1974-75	1975-76	1976-77
School text books	41.5	37.4	31.2
Exercise books	49.6	45.2	56.5
Examinations	3.6	5.9	6.8
Private publishers	5.3	11.5	5.5
Total	100.0	100.0	100.0

22.4.8 It would be seen from the above that considerably more than half of the allocation of white printing paper has gone for the production of exercise books, as also text books by private publishers where the actual use of the concessional paper has not been fully monitored. According to informal evidence given by some people in the trade, there has been some black-marketing of white printing paper released for the production of exercise books.

22.4.9 There is an additional loophole in regard to the functioning of the system. The total output of white printing paper enjoying a concessional excise duty of 5½ per cent has lately been of the order of 1.8 lakh tonnes. The total supply of concessional white printing paper has been of the order of 1.2 lakh tonnes. The control system has, it would appear, been used for obtaining supplies of paper for DGS&D requirements which are not of the category of white printing paper and, therefore, not entitled to the concessional excise duty. Since clearances of white printing paper for excise purposes would have been made at a concessional rate of 5½ per cent for 1.8 lakh tonnes, whereas the supply of such paper by the mills at the behest of the Ministry of Education would have been of the order of 1.2 lakh tonnes, and since there has been no direct link up between the excise rebate and despatches "certified" as for educational needs, there is clear scope for the leakage of a considerable quantum of white printing paper. The only check here is the end-use of white printing paper as per the directives under the Essential Commodities Act. There has been no effective check in this regard; nor has there been any formal notification as to the price of white printing paper, and the excise duty is payable on an ad valorem basis only on the ex-factory price. The control system appears to have been designed somewhat loosely in this connection, giving an opportunity for the generation of considerable untaxed money.

22.4.10 Since the Government purchase of paper is not confined to white printing paper and is in any case negotiated by the DGS&D on rate contract basis, there is no reason why the myth of concessional supply of paper to meet Government requirements, should continue. The Committee understands that in 1978-79 there has, in any case, been no agreement between Government and industry on the terms of supply, and Government has been planning the import of paper. The Committee recommends that there should be no "concessional" paper supply to meet Government requirements.

22.4.11 The lack of control over despatches of white printing paper by the mills has led to numerous complaints. Two examples pointed out by the Karnataka Government are indicated below:-

(i) Advance paid by the Karnataka Government Text Book Bureau – against allocation of paper formally communicated — to Mysore Paper Mills, Bhadravati, for 300 tonnes, on 24.4.1978.

Supplies received by 13.9.1978 - only 153 tonnes.

(ii) Advance paid by the Karnataka Government Text Book Bureau on Andhra Paper Mills for 300 tonnes on 24.4.1978.

Supplies received by 13.9.1978 - only 255 tonnes

The Committee feels that these problems could be got over by better monitoring of the control, the monitoring points being quite few in this case.

22.5 Review of price and distribution control

22.5.1 Some comments have already been made on the working of price and distribution control over white printing paper. A few further comments on this issue are in order.

22. 5. 2 There is some merit in the plaint of the paper manufacturers that the price of Rs. 2750 per tonne for white printing paper deemed reasonable in 1974, cannot remain reasonable indefinitely, and that there has been considerable escalation in costs over the past five years to warrant an increase. It is understood that the problem has now been referred to the BICP. Since the BICP would take some time to submit its report, the situation exemplifies one of the problems of price control based on elaborate cost investigations, which are always delayed.

22. 5. 3 The leakages pointed out, in the supply of white printing paper, could be prevented by extending the control system one stage further. The Karnataka Government's approach can provide a useful model in this connection. In Karnataka, the Mysore Sales International Limited (MSIL) has been entrusted with the task of organising the manufacture and distribution of exercise books in the State. The MSIL receives the entire quota for exercise books in the State, sub-contracts for the conversion of the paper into exercise books by small, traditional converters, and markets the exercise books directly through schools, through co-operatives, super bazars and private trade channels. Priority is given to demands made by educational institutions for distribution of exercise books to their students, for which norms are laid down. If such arrangements for funnelling the concessional paper are made in all States, the chances of leakage would be eliminated and the intended subsidy would reach the target group. It is understood that the West Bengal Government has also recently initiated a scheme whereby the distribution of exercise books has been entrusted to wholesale cooperative units in the State. The centralised agency is the West Bengal State Federation of Wholesale Consumers' Cooperative Societies, which in turn is expected to distribute the same through its member societies against orders from them. The Committee has not been able to study the functioning of the West Bengal system, but it has found that reports about the functioning of the Karnataka system are favourable.

22. 5. 4 In regard to the problem of leakage through a lower rate of duty, this could easily be avoided by instituting a system whereby the concessional duty is available either on production of a certified despatch order in favour of an allottee granted supply of paper by the "State level committees", or by stipulating that the excise duty on white printing paper would be at the same rate ex-factory, as for other cultural varieties of paper, a refund of the excise duty being given thereafter to the agency getting the concessional paper.

22. 5. 5 The Paper (Regulation of Production) Order of 1978, which seeks to regulate the production of different varieties of cultural paper raises both theoretical and practical issues. In theory, control over the output-mix of a product which has to be marketed by the producers, is an arbitrary intervention with the best judgment of the producers. Ideally, this matter could be left to be decided by market forces if there is free competition between a large number of producers. However, the paper industry, as noted earlier, has strong oligopolistic characteristics. The control over production has not only been the means to secure an adequacy of output of white printing paper required by the student community, it has also controlled — without any adverse effects on the industry — the output of different varieties of cultural paper, so that a reasonable sufficiency of output of all varieties of paper is assured. Since there has been no price control over varieties other than white printing paper, and since the paper industry has evinced a tendency to change the "nomenclature" of paper from time to time, the extant control system, buttressed by the laying down of ISI specifications, should continue.

22.6 Need for other controls

22.6.1 The paper industry has been one of those most guilty in the matter of spreading environmental pollution. The effluent of pulp mills, particularly with a strong caustic soda-chlorine admixture, is not only injurious to plant and marine life, it also creates problems of supply of clear drinking water to villages downstream, along the rivers into which the effluent is discharged.

22.6.2 The establishment of the NEERI by the Government of India, and the laying down of norms in regard to the maximum BOD content in the effluent to be discharged into rivers by pulp/paper mills, have so far not eliminated the problem. Various State Governments have also promulgated orders regarding the BOD content of the water, after discharge of effluent, but the implementation has been halting and weak, and the large scale paper industry has found one excuse or the other for bypassing even the mild (and generally inadequate) safeguards required under these environmental regulations. There has been inadequate check and insufficient penalties for violation of the norms laid down by the NEERI. Whereas in several foreign countries, effluent treatment by paper mills is so efficient as to permit the recycling of the water used by them, in India, even dilution of the caustic-chlorine content to tolerable limits is not observed by all paper plants. All existing paper plants — with a low burden of capital servicing cost — are guilty in this regard, and have avoided investing some Rs. 2 to 2½ crores required for scientific effluent treatment in a large sized paper plant, even though their balance sheets have been showing reasonably high profits. Considering the profitability of the paper industry – one major paper company (not yet diversified to a multiproduct company) had a net profit of Rs. 14.8 crores in 1974-75 against the issued capital of Rs. 7.8 crores, with reserves and surplus growing from Rs. 20 crores to Rs. 30 crores over the year – the plea of paper manufacturers in this regard can hardly be justified. True, the installation of equipment takes time; but no effort has been made even to order the required equipment. Regrettably sanction of funds for public sector projects for this purpose has been tardy, the Nepa Mills having been denied Rs. 78 lakhs requested by them as far back as mid 1966, which is yet to be sanctioned.

22.6.3 The Committee feels that the cost to the nation, in terms of disease, loss of marine and plant life, and in terms of making large tracts of land (used as settling ponds for effluent) unfit for productive use, is so high that stringent controls should be introduced for the paper industry, in regard to effluent treatment and control over environmental pollution.

Import/Export control over paper

22.6.4 The problem of import/export control is a general one; but the evidence tendered before the Committee contains several aspects of import policy concerning the paper industry which deserve to be specifically mentioned.

22.6.5 The import of paper machinery has been banned for some time, yet capacity for the manufacture of paper machinery, created within the country, has remained substantially under-utilised because of the lack of adequate new investment interest in the paper industry. Against this background, and in the face of persistent demand for the facility to import second hand paper machinery, Government permitted the import of second hand paper machinery of upto 30 tonnes per day capacity in 1976. This

* National Environmental Engineering Research Institute, Nagpur.

facility was discontinued in 1977, but in the process, several orders placed on indigenous equipment manufacturers were cancelled.

22.6.6 There is another aspect of import control policy relevant to the paper industry which needs to be reviewed, particularly in the light of what may be the best strategy for the long term development of the paper industry. It has frequently been suggested that in the long run, the paper industry should be developed by —

(a) having large mother pulp mills in areas rich in natural (renewable) forests (since continuous digesters of large capacity make for scale economies; and since effluent disposal can be controlled properly where the size of the unit can justify the investment required for this purpose); and

(b) having small paper making units based partly on purchased pulp (produced by the mother pulp mills) and partly on annually renewable cellulosic materials by way of agricultural residues like bagasses, jute sticks, straw, and other secondary materials like waste paper and rags etc. The purchased pulp is necessary to upgrade the "furnish" required for paper making.

22.6.7 Based on the above philosophy, a pulp mill was set up in the private sector some time back, as a co-operative of small paper mills, but for a long time, the producer had difficulty in marketing the pulp output. The representation made to the Committee is that for a long time, this company has not been permitted to export its pulp on the ground that the pulp should be used within the country (even though there was no way to ensure the offtake of its output); and that lately, the import of pulp has been suddenly allowed freely (as a result of pressure of paper making units) even while there is not enough offtake of this mill's pulp output, because there is apparently a temporary glut in the world supply of pulp, leading to the "dumping" of pulp by international suppliers at prices lower than indigenous prices. The Committee is unable to see the logic of a policy of liberalised import under conditions of dumping by foreign suppliers when the indigenous producers have been prevented from exporting under conditions of high world prices. The Committee has recommended elsewhere — in Chapter 20 on Non-ferrous Metals - the need to insulate indigenous producers from speculative changes in world prices. While there should not be undue protection to any industry, as suggested by the Committee in Chapter 8 on Import and Export, decisions in this regard should be taken on an evaluation of domestic demand, availability, and long term economics. The Committee would like to reiterate the point for the pulp/paper industry.

22.6.8 In the interest of maintaining a proper ecological balance, and of environment (so as to prevent recurrent floods), the rapid denudation of our forest wealth needs to be halted. Even though there are advantages in an "integrated" paper plant, modern methods of "drying" of pulp and of bulk transportation of pulp permit of a "split location" for pulp and paper making.

22.6.9 There is today a heavy hidden subsidy paid by the community to the paper industry because the "royalty" rates for forest resources make the prime cellulosic materials far cheaper than the agricultural residues. Indeed, the royalty rates do not even cover the cost of the forest administration and of renewal of forestry and afforestation. This is an area where a conscious policy of proper pricing of forest produce, coupled with judicious concessions in the matter of excise

duties for the use of secondary raw materials — which is already in existence for some types of residues (though available only when used for more than 50 per cent of the total cellulosic inputs required) — should help to focus policy on the longer term needs of the economy. This policy would also help in relatively more decentralised production of paper, in accordance with local needs and requirements, since paper transported over long distances is more liable to damage than pulp.

22.6.10 There is yet a third aspect of the paper industry which reveals the extent of market imperfection in the industry not only in India but also in the world, which underscores the need to gear our policies to the long term needs of the economy, rather than to short term fluctuations in international prices. It is understood that following the refusal of all major paper companies to enter into a "rate contract" with the DGS&D in 1978-79, for supply of paper to Government, the latter attempted to import the required quantum of paper. The imports did not materialise in time because the international prices of the common varieties of paper have been quite high, even as pulp and "glazed newsprint" have been available at a highly favourable price, smacking of dumping. The import solution, though necessary, is not a panacea to all problems because, if the Indian market is imperfect, the international market is equally, if not more, imperfect in many areas.

22.7 Newsprint

22.7.1 Control over newsprint was first instituted in 1941, under DIR, but control was relaxed after the war. At present the acquisition, sale and consumption of newsprint are regulated by the Newsprint Control Order of 1962 as last amended in September, 1976.

22.7.2 There is one factory producing newsprint within the country, called the National Newsprint and Paper Mills Ltd. (Nepa Mills), floated in 1947 in the private sector in Nepanagar, Madhya Pradesh. In October 1949, the mill was taken over by the State Government, and in 1958 it was taken over by the Central Government with a view to increasing the output of newsprint and saving foreign exchange spent on the import of newsprint. The Government of India owns 51 per cent of the equity and the Madhya Pradesh Government 34 per cent, the balance being privately held. The capacity of Nepa Mills has been raised from around 14,000 tonnes in 1956-57 to 75,000 tonnes as of now. Certain problems pertaining to the control over the pricing of Nepa Mills newsprint are indicated later.

22.7.3 The Newsprint Control Order permits Government to exercise control over various facets of newsprint price and use, the control having been exercised over one or more aspects from time to time. The control has extended over —

(a) the price of indigenous newsprint (controlled administratively by the Ministry of Industry) produced by the only newsprint manufacturing plant, the Nepa Mills, in the public sector;

(b) the import of newsprint, determined by the Ministry of Information and Broadcasting, canalised fully through the STC since April, 1974;

(c) the distribution (or allocation) of newsprint to newspapers as per newsprint allocation policy announced by the Ministry of Information and Broadcasting from time to time; and

(d) various restraints and controls in regard to use of newsprint, as per the Newsprint Control Order, also operated by the Registrar of Newspapers under the Ministry of Information and Broadcasting.

22.7.4 Annex 22.2 summarises the basis of entitlements of newsprint over the past few years (1974-75 to 1978-79). While the "rationing" of newsprint in accordance with availability is understandable, the following practical problems and difficulties have arisen in the operation of the control over newsprint:-

(a) For long years, the price of Nepa newsprint has been kept pegged at a very low level, significantly below the import price, resulting in losses to the Nepa Mills (corrected only from 1974-75 onwards). The price of Nepa newsprint has been controlled by Government, and for a few years, kept pegged at below production cost. On this point, the Committee can do no better than to quote from the 27th Report of the Committee on Public Undertakings on Nepa Mills 3/ —

"The Committee note that the Mills have been approaching the Government of India for the revision of selling price of newsprint and the Government of India took considerable time to grant an ad hoc increase of Rs. 50 per tonne in May, 1968 which brought the price to Rs. 1100 per tonne when the cost of the imported newsprint was Rs. 1243 per tonne. When the Nepa Mills again approached the Government of India in April, 1969 for a further increase it was only in September 1971 that the Government of India raised the selling price to Rs. 1362 per tonne which was almost the same as the imported price, after a lapse of two years apparently after the matter was raised through the Audit Report (July, 1971). The Committee regret to observe that there was hardly any justification in compelling the Nepa Mills to continue to sell the newsprint at less than the imported price in the intervening period especially when they were running at a loss."

(b) The control over Nepa Mills has been such that it has had no freedom to sell even rejects and cuttings, as per the Newsprint Control Order, to any but those entitled to newsprint, who do not want rejects and cuttings. Administrative solutions have been found from time to time by giving the required waiver to Nepa Mills, but this part of policy is controlled by the Registrar of Newspapers under the Ministry of Information and Broadcasting, who has no interest in the economics of Nepa Mills, so that the orders have come sporadically, after long delays, and only after repeated requests.

(c) While Nepa newsprint price has been controlled, its offtake has also been assured by stipulating the minimum allocation of Nepa newsprint to all newspapers, in a given proportion. This has been resented of late by news-

3/ See, Report of the Committee on Public Undertakings (1972-73), 5th Lok Sabha, on National Newsprint and Paper Mills Ltd., Nepanagar, para 6.22

papers because of the inferior quality of Nepa newsprint, which is based on 'salai' and not on coniferous soft woods. But the scramble for Nepa newsprint when imports were not adequate gets forgotten in all such plaints. Since newsprint is imported duty free, (being one of the very few items to be imported without duty), this puts Nepa Mills under continued pressure, again because the newsprint import and allocation policy is the responsibility of the Ministry of Information and Broadcasting, while Nepa Mills is the concern of the Ministry of Industry.

(d) The formula for allocation of newsprint favours existing newspapers/periodicals, and it becomes difficult for new, local newspapers to come up because, even though there is provision for newcomers, the policy is somewhat restrictive. This helps existing newspaper chains to start new periodicals or even newspapers, but makes it difficult for the smaller, local papers to get adequate newsprint on the same terms.

(e) Although canalisation of newsprint through the STC has enabled the country to secure newsprint on bulk basis at a time when the international supply situation was difficult, of late, the relative ease of availability of newsprint in world markets has made the intervention of the STC unnecessary. In fact, there have been numerous complaints of higher administrative and other costs of the STC, and the complex system of allocation, which is now no longer necessary. The only factor relevant in control over the import of newsprint today is the protection if any required for newsprint produced by NEPA mills. A solution for this is suggested in the next paragraph, and with that solution, import of newsprint should be made free so that this unnecessary restraint can be done away with. The STC could compete for the import of newsprint in bulk for smaller newspapers and thereby depend on its efficiency for meeting small requirements of a large number of importers.

22.7.5 Annex 22.3 sets out the major features of the Newsprint Control Order, 1962 (as amended upto 31st March 1979). The Committee would like to make the following suggestions in regard to this Control Order :-

(i) There should be no restriction on newsprint consumption and imports of newsprint should be freely permitted. At the same time, Nepa Mills should also be granted freedom in regard to sale of newsprint. The problem of protection to indigenous producer can be resolved by having an appropriate import duty on newsprint so that Nepa Mills is free to market its product at a reasonable price.

(ii) There is a control over the price of Nepa newsprint. This could also be lifted if imported newsprint is made subject to an import duty, so that the Nepa newsprint is allowed to be sold in competition with imported newsprint. Nepa newsprint grammage being higher and the colour being darker, giving less number of pages per tonne of newsprint, its final price to the consumers has to be lower than the per tonne import price.

(iii) The procedures in regard to authorisations by the Registrar of Newspapers (for newsprint) are fairly detailed, there being compulsion in the matter of lifting Nepa newsprint, while import allocations are made. If imported newsprint is subject to an import duty, the compulsion in the matter of use of Nepa newsprint could be dispensed with.

22.7.6 Control, canalisation and allocation of newsprint has created avoidable hardship to newspapers. In the present comfortable foreign exchange situation, there is no economic reason to have any control on the import of newsprint. The Committee, therefore, recommends that the import of newsprint should be under OGL.

22.8 <u>Hand-made paper</u>

22.8.1 Hand-made paper is a purely cottage industry product. It has a high income elasticity of demand, and fetches a high price in an exclusive market. The present output of hand-made paper is only around 2000 tonnes, and it has considerable potential for expansion, providing employment. The main problem with this product is its marketing. Although hand-made paper cannot hope to compete with large-scale paper making, nor can it possibly meet the increasing needs of the growing market, it can still meet part of the requirements for paper and paper products in areas where the demand is for exclusive-quality paper. The marketing of hand-made paper needs to be assisted through institutional arrangements designed to promote cottage industries. Hand-made paper should be given priority in government purchases for certain types of uses. To begin with, 1 per cent of government purchases of paper should be reserved for hand-made paper.

Chapter 23

RUBBER

23.1 Introduction

23.1.1 Rubber is a primary plantation product which is vital to the modern economy It is *inter alia*, essential for the automotive transport industry. Demand for raw rubber has grown significantly, as has indigenous production. In the past quinquennium, there have emerged both surpluses and shortages of raw rubber. Over the past several months, the Committee's attention has been drawn to a serious rubber shortage, proposals for the import of raw rubber and the periodic postponement thereof.

23.1.2 A salient feature of rubber is that there are a large number of small producers (about 136,000 growers) and a relatively small number of manufacturers (about 16 tyre makers and around 3,000 licensed miscellaneous rubber goods manufacturers). The interests of the two groups need to be reconciled on the basis of long term needs of growth and income sharing, which has not transpired so far. Unlike many other commodities where controls have been imposed under omnibus legislation like the Essential Commodities Act, control in the case of rubber as in the case of certain other items like coffee, has been exercised under a separate statute namely, the Rubber Act, dealing with this commodity.

23.1.3 There are at present some sixteen countries (led by Malaysia) producing natural rubber in significant quantities. Current world production of natural rubber is stated to be around 4 million tonnes. In India, rubber plantations are of comparatively recent origin. In 1931, the output was a mere 10,000 tonnes, which went upto 15,830 tonnes in 1951-52. Due to the Government's strategy of fostering indigenous rubber production, domestic output increased to 92,171 tonnes in 1970-71 and 137,750 tonnes in 1975-76. The yield per hectare in 1951-52 was only about 360 Kg. as against 800 Kg. during 1976-77. The average daily employment in rubber plantations is around 1.5 lakhs. The figures of indigenous production and of imports of rubber are given in Annex 23.1.

23.2 Production, import and consumption

23.2.1 More than 94 per cent of the natural rubber produced in the country originates from Kerala. Other rubber producing States are Tamilnadu and Karnataka, and Andaman & Nicobar Islands. Some rubber is produced in Andhra Pradesh, Maharashtra, Goa and Tripura also. Figures of tappable area, output and average yield of rubber for the last four years are given below:

Table I

Area, output and average yield of rubber

	Area ('000 hectares)	Output ('000 tonnes)	Average Yield (Kg./hectare)
1974-75	170.9	130.1	762
1975-76	178.5	137.8	772
1976-77	185.6	149.6	806
1977-78	191.0	147.0	770

23.2.2 Apart from natural rubber, there is at present one factory producing synthetic (butyl) rubber based on alcohol with an annual capacity of 30,000 tonnes. In addition, it is estimated that approximately 20 per cent of requirements are met by reclaimed rubber.

23.2.3 Till 1973, India used to import rubber (both natural and synthetic) to meet internal needs. With the increase in production, imports were banned w.e.f. 1.4.1973. No import of raw rubber is permitted even as import replenishment for export production.

23.2.4 About 60 per cent of rubber consumption is by the automotive tyre/tube industry. Other major consumers are bicycle tyre/tube (12 per cent), rubber and canvas footwear (12 per cent) and sundry rubber goods including foam and moulded rubber (15-16 per cent).

23.2.5 Forecasts of production and consumption are indicated in the table below:-

Table II

Forecasts of production and consumption of rubber

	Estimated output	Estimated consumption ('000 tonnes)	Likely deficit
1978-79	145	157	12
1979-80	157	164	7
1980-81	162	173	11
1981-82	165	183	18
1982-83	170	195	25

23.3 Rubber Act, 1947

23.3.1 The major piece of legislation affecting rubber is the Rubber Act, 1947. The Act was amended in 1954 and 1960 by the Rubber (Production & Marketing) Amendment Act and the Rubber (Amendment) Act, 1960. Under the 1947 Act, the Rubber (Production & Marketing) Rules, 1947 were framed. These were replaced by the Rubber Rules, 1955. The Rubber Act, 1947 aims to provide for the development of the rubber industry under the control of the Union of India and contains a declaration that it is expedient, in the public interest, that the Union should take under its control the rubber industry.

Rubber Board

23.3.2 The Act provides for the constitution of the Rubber Board; lays down the functions, powers, etc. of the Board and empowers the Central Government to (a) fix maximum and minimum prices for the sale of rubber, and (b) impose a rubber cess not exceeding fifty paise per Kg. of rubber produced.

23.3.3 The Board can, with the previous approval of the Central Government, import rubber for sale, or purchase rubber in the internal market at prices fixed by the

Central Government. The Board also collects the rubber cess from owners of rubber estates or from the manufacturers by whom rubber is used. The proceeds of the cess collected (reduced by the cost of collection) are credited to the Consolidated Fund of India and then paid to the Board for being utilised for the purposes of the Act, subject to appropriation from Parliament.

23.3.4 Producers, dealers and consumers (i.e. manufacturers of rubber products) are registered with the Rubber Board which issues licences to them. The Board issues licences to rubber goods manufacturers for acquiring natural rubber for processing. Producers can sell rubber to dealers as also to manufacturers. A dealer can sell rubber to any other dealer or to any manufacturer.

23.4 Fluctuating market

23.4.1 As a primary commodity, rubber prices in the international market have been fluctuating, and there have been occasions when world prices were either much higher or much lower than the Indian prices. There have naturally been pleas from time to time for review of rubber prices in India from the two sections of the industry, viz. the growers and the manufacturers. Exporters of rubber products have sought import facilities whenever indigenous rubber prices have been higher than world prices.

23.4.2 Indian prices of rubber have also been fluctuating. The table below brings out the changing average market price of indigenous natural rubber in the past decade:-

Table III

Average market price of indigenous natural rubber

Year	Average price for RMA, 3,4 & 5 grades
1969-70	500.70
1971-72	420.78
1974-75	849.24
1976-77	596.00
1978-79 (upto January 1979)	955.00

During 1978-79, prices had shot up to a peak of Rs.1200 per quintal in April 1978. The price in mid March 1979 was Rs.1060 per quintal.

23.5 Rubber cess

23.5.1 As noted in para 23.3.3, under the Rubber Act, 1947 Government can levy a cess on raw rubber upto 50 paise per Kg. and the cess is being collected by the Rubber

Board. The rate of cess has been as follows for 100 Kg. :-

Table IV

Rate of cess on rubber

Year	Rs. per quintal (100 Kg.)
1947-55	1.10 (approx.)
1955-58	6.25 (approx.)
1958-61	13.80
1961-75	30.00
1975 onwards	40.00

Upto 31.3.1961, the cess was collected from the producers, and thereafter from the manufacturers (except that the duty on sole crepe is still collected from the rubber producers). From 1956-57 onwards, the Rubber Board is also collecting the difference between the landed cost of imported natural rubber and the controlled price in India, whenever the former is less than the latter. The annual amount of cess collected from the producers/manufacturers is currently around Rs. 5 crores. The appropriation for the development of the rubber industry has usually been much less.

23.6 Import replenishment and export subsidy

23.6.1 India has been an exporter of rubber products. Due to the increase in raw rubber prices in 1974-75 significantly beyond the then international prices, a scheme was evolved in 1975 for the supply of indigenous rubber at international prices, for which the cess on raw rubber was specifically raised (from Rs. 30 to Rs. 40 per quintal). Exporters of rubber products were to be reimbursed the difference between the indigenous and Malaysian price for the quantum of rubber incorporated in exports of rubber products. In 1977, the scheme was dormant because the Indian rubber prices were competitive. The scheme lapsed after March 1978 but was revived again in August, in view of the steep increase in rubber prices in India. In addition, exporters - as of mid-March 1979 - have been entitled to import replenishment at varying rates indicated below:-

(a)	Bicycle tyres and tubes	40 per cent
(b)	Automotive tyres and tubes (excl. tubes of butyl rubber) with nylon cord	60 per cent
(c)	Others	45 per cent

23.6.2 The amount of cess collected and disbursed by the Rubber Board (for developmental outlay as well as subsidisation of the price of rubber for export produc-

tion) during the past five years have been as follows:-

Table V

Collection and disbursement of Rubber cess

	Collection	Release
	(Rs. crores)	
1973-74	3.0	1.1
1974-75	3.8	1.8
1975-76	3.7	2.0
1976-77	5.0	2.7
1977-78	5.4	2.6

The outstanding balance in the Cess Fund, as of March 1978, was Rs.20 crores.

23.6.3 The export of tyres and tubes has, in addition to the import replenishment noted earlier, been given a cash compensatory support at varying percentages from time to time, the extant degree of assistance - as on 1.4.1979 - being as follows:-

a)	Auto tubes	12.5 per cent
b)	Auto tyres and tubes excluding tubes of butyl rubber	15 per cent
c)	Auto tyres with Nylon Cord	15 per cent
d)	Bicycle tyres & tubes excluding tubes of butyl rubber	10 per cent

23.7 Price control

23.7.1 Price control on natural rubber was introduced early in 1943 under the Rubber Control Production Order 1942, and has been in force except for a brief break during 1946-47 and 1963-67. The prices fixed initially were on an ad hoc basis, having regard to the prices then prevailing for rubber in Ceylon. A beginning towards price fixation based on the cost of production of rubber was made only in 1946. After the setting up of the Rubber Board under the Rubber Act, 1947 the task of price fixation was entrusted to the Board. In 1950 the Rubber Board requested the Government that the question of price fixation of rubber be referred to the Tariff Board. The Board took up investigation of the industry in 1951 and recommended a price of Rs.128 per 100 lbs including Rs.6.82 and Rs.1.90 respectively for rehabilitation allowance and sales tax. Later, the Tariff Commission studied the industry in 1952, 1955, 1960, 1967 and 1969. The prices recommended (and later fixed by Government) included the cess (upto 1960) and in its 1960 report the Commission decided to exclude the cess from the price fixed.

23.7.2 After the abolition of the Tariff Commission, the costing of rubber was done by the Rubber Board in 1975-76, but this was not apparently acceptable to the manufacturers of rubber products, and a further study was undertaken by the Cost Accounts Branch of the Ministry of Finance. This study, though completed in 1976, was not followed up, and only in August 1977, the minimum price was revised to Rs.655 per

quintal. Further revision of the rubber price is reported to be under the active consideration of the Ministry of Commerce.*

23.7.3 The maximum prices of raw rubber fixed from 1947 onwards are indicated in Annex 23.2. Till September 1970 minimum prices were also notified, but these used to be only a rupee lower than the maximum.

23.8 Exports

23.8.1 Till 1973, India used to import natural rubber. After 1973, India turned out to be a marginal exporter. Exports during the last five years were as follows:-

Table VI

Exports of natural rubber from India

	Tonnes
1973-74	2700
1974-75	350
1975-76	NIL
1976-77	12,296
1977-78	11,078

The exports during 1976-77 and 1977-78 were undertaken in the context of the manufacturing industry's attempt to pare down inventories to less than $2\frac{1}{2}$ months stock. This level of stock had been suggested by the Ministry of Commerce and the lowering stock levels created a situation of glut with the producers. No attempt appears to have been made to build up a buffer stock of rubber. In fact, the Committee is informed that while the Ministry of Industry pressed for the creation of a buffer stock by the Rubber Board in 1976, the same was not agreed to by the Rubber Board and the Ministry of Commerce, and the latter chose to get the rubber exported through the STC at a loss. In the result, an ideal opportunity to build up a buffer stock of raw rubber was lost. In 1975-76, Government gave a subsidy of Rs.5 lakhs to cover this loss; over 1976-77 and 1977-78, the net loss of the STC on this account has been Rs.15 lakhs, which the Government has not agreed to subsidise.

23.9 Review of price control

23.9.1 It would be seen from Annex 23.2 that there was never any clear correspondence between actual prices of rubber in the market and controlled prices as announced from time to time. After the price announcement in August 1977, but more particularly as a result of the export of raw rubber over 1976-78, rubber prices went up and touched the record level of Rs.1200 per quintal in April 1978. To meet the situation Government announced the decision to import 15,000 tonnes of rubber. Import, however, was deferred on an assurance from the Kerala Government that they would bring down the prices. The price of rubber at the end of January 1979 was Rs.1020 per quintal, which would appear to be high in relation to the recommendations made by the Cost Accounts Officer of the Ministry of Finance.

*The prices of rubber have been revised, as of going to the press, on April 17, 1979, by a notification issued by the Ministry of Commerce, prices of RMA 3,4 and 5 ranging from Rs.788 to Rs.815 per tonne.

23.9.2 A number of interesting points arise from a study of the various controls on rubber. First, there is, at present, no effective ceiling price. The maximum and minimum prices, as notified prior to 1970, also did not signify anything - the differential between the two being only Rs. 1 per quintal. The market price of rubber has been behaving quite independently of both the controlled and international rubber prices. Secondly, though the Rubber Act empowers the Board (with prior Government approval) to engage in buying and selling rubber, it has never attempted to do so, and has steadily avoided building up a buffer stock of rubber with which to moderate market prices. In fact, as seen earlier, when there was a temporary surplus of rubber in relation to demand, and prices were depressed, the Ministry of Commerce preferred the export of rubber through the STC at a loss, rather than to get the Rubber Board to build up a buffer stock. Thirdly, a cess on rubber has been collected from 1947, and at a fairly high rate since April 1961, but the funds have remained largely unused, and even the cost of buffer stock operations has not been considered to be an appropriate charge on the Fund, even though this was suggested in 1976. Indeed, even the supply of raw rubber for export production was financed from the cess in 1976 only after the cess was raised from Rs.30 to Rs.40 per quintal. Fourthly, the import mechanism has not been used to keep prices of raw rubber within reasonable limits though exports (at a loss) were undertaken earlier to support the falling indigenous rubber prices. Fifthly, there has been an accumulation in the cess fund, of as much as Rs.20 crores, indicating the under-utilisation of the cess funds for developmental purposes. Finally, there have in the past been delays in price revision leading to a stagnation in rubber production. A minor point, but worth mentioning in this connection is the ban which had been imposed earlier, since withdrawn, on the import of the chemical 'Ethiopon', a rubber stimulant. Such import bans have been referred to earlier in Chapter 8 on Import and Export Control, imposed in the past in the interest of import substitution, without adequate thought as to the damage done - to a much wider section - in the process. Fortunately, this ban has since been removed.

23.9.3 The Committee feels that the problem in regard to rubber could be tackled through two types of policies. First, as a long term solution, there is both the possibility and the need for increasing production. This is essentially a matter for promotional effort by way of extending acreage under rubber plantation, undertaking research towards improved cultivation methods, including training in areas of high manuring and spraying, besides improved marketing techniques. But it is also a matter of price policy, and of an effective "support price". At the same time, there is need for a ceiling price so that the manufacturing industry, particularly the exporters, are not adversely affected. In fact, a reasonable price is essential not only to keep product prices low but also to ensure a reasonable growth in the demand for rubber. This links up with the second, short run problem of the need to regulate prices so as to impart stability to the market. For this purpose, apart from a realistic support price, there is need to maintain a buffer stock, buttressed by purchase at the support price, so that the growers get remunerative prices. This would <u>inter alia</u> go to stabilise production, besides ensuring an equitable return to the many small rubber growers. Minimum support prices should be determined by an independent body like the Agricultural Prices Commission, or the Bureau of Industrial Costs and Prices.

23.9.4 The size of the buffer stock is a matter for specialised study. On the basis of the evidence before it, the Committee feels on <u>prima facie</u> grounds that at today's consumption rate, a stock of around 2 months' requirement - or about 25,000 tonnes

of rubber - may be a reasonable buffer. Whatever is the proper size of the buffer stock, it should be built up immediately, if necessary, through import. At the international price of around Rs.870 per quintal in January 1979 and at an interest rate of 14 per cent, the interest cost of holding such a buffer stock (of 25,000 tonnes of rubber) would be around Rs.3 crores per annum, which would be a little more than half the money collected annually as cess on rubber. The Committee feels that this cost would be a legitimate charge on the rubber cess, since buffer stock operations in rubber would be in the long run interest of rubber growing. This operation should be undertaken, and the Rubber Board be directed to undertake the buying and selling of raw rubber at the "floor" and "ceiling" prices.

Chapter 24

GOLD CONTROL

24.1 Introduction

24.1.1 Gold Control was instituted for the first time in January 1963 by way of an amendment to the Defence of India Rules and the insertion of a new Section (Part XII-A) on gold control. The two main objectives of gold control were - first, to wean the country away from the centuries old habit of gold hoarding and dissipation of personal savings in gold jewellery; and secondly, to reduce the possibility of smuggling of gold into the country which, even at that time, was estimated to be approximately worth Rs. 100 crores per annum.

24.1.2 The broad features of gold control, as then instituted, were as follows:-

(a) All future gold ornaments were to be made in not more than 14 carats;

(b) strict limits were laid down for the possession of primary gold;

(c) all dealers and refiners of gold were to be licensed and were required to submit regular returns in regard to their transactions;

(d) no dealer was to sell or transfer any primary gold to a person other than a dealer or a refiner; and

(e) every person was to declare any quantum of gold held in excess of 50 gms.

24.1.3 As a result of protests from goldsmiths all over the country, gold control was amended in September 1963 to permit the manufacture, by registered self-employed goldsmiths, of gold ornaments of more than 14 carat provided that these were made by melting existing gold ornaments. In retrospect, though the intention was to permit only existing ornaments to be melted and remade into ornaments of the same gold content, this provision made for a loophole which has nullified the main thrust of gold control, namely, to wean people away from gold jewellery.

24.1.4 Gold control had thereafter a number of phases. In 1966 the 14-carat purity restriction on the manufacture of new gold ornaments was withdrawn. The other restrictions imposed earlier continued. Among the new restrictions imposed in 1966 were -

(i) Possession of primary gold by any person other than a licensed dealer, refiner or a certified goldsmith was banned. Persons possessing primary gold were required to dispose of the same either by sale to a licensed dealer or by conversion into ornaments.

(ii) Provision for declaration of ornaments and articles exceeding 4,000 grammes gold in case of a family, 2,000 grammes per adult individual and 800 grammes for a minor was introduced.

(iii) Special provision regulating receipt and disposal of primary gold, gold ornaments and articles by religious institutions was introduced.

(iv) Limits on the possession of primary gold other than standard gold by the licensed dealers were imposed ranging from 500 grammes to 2,000 grammes depending upon the number of workers employed by them.

(v) Certified goldsmiths were permitted to possess standard gold not exceeding 100 grammes.

(vi) Advancing of loans against hypothecation of primary gold was also banned.

24.1.5 The Gold Control Act was passed in September 1968.

24.2 <u>Present control system</u>

24.2.1 Gold control, as it operates now, is governed by the Gold Control Act of 1968 which came into force on September 1, 1968. It embodies the provisions of gold control in force until that date. The Act, according to its Preamble, is intended "to provide, in the economic and financial interests of the community, for the control of the production, manufacture, supply, distribution, use and possession of, and business in gold, ornaments and articles of gold and for matters connected therewith or incidental thereto".

24.2.2 There is a total ban on the private possession of gold other than in ornament form. Holding of ornaments over specified limits (2,000 gms. per individual and 4,000 gms. per family) is required to be declared but there is no other control or ceiling on possession of gold ornaments. Pawnbroking in or loan against primary gold is banned. Pawnbroking in or loan against gold ornaments continues to be free from any licensing control except that no loan can be obtained by anyone against ornament required to be declared but not so declared. The Gold Control Administrator is empowered to get periodical returns of transactions in gold ornaments from a pawnbroker.

24.2.3 Private refineries were delicensed with effect from 1.1.1969. The Government Mint at Bombay is the only one working now except for a private sector refinery in Calcutta, which works in a limited way under a stay order granted by the Calcutta High Court.

24.2.4 Manufacture of gold ornaments is wholly in the private sector and is virtually free of any control except that goldsmiths have to obtain a certificate. Dealers have to obtain a licence. A licensed dealer is required to declare all the possessions of gold ornaments for his and his family's personal use. Standard gold and gold ornaments can be acquired by the licensed dealers essentially for making new ornaments for sale to the public. Exchange of ornaments and standard gold between the licensed dealers is, however, not prohibited. Such exchanges take place in the normal course of business. There is a limited but brisk trading in standard gold bars. The goldsmiths, partners of a licensed partnership firm and employees of the licensed dealers and exporters of gold ornaments are also eligible to get a dealer licence. The goldsmith and the dealer have to record the name and address of their respective customers.

24.2.5 The certified goldsmith is required to keep only a simplified account of his transactions but is not permitted to stock and trade in ready-made gold ornaments. There is a limit on his acquisition and possession of gold for making ornaments. The limits are kept at a basic minimum related to the output capacity of a self-employed goldsmith. Goldsmiths can buy old ornaments directly from the public.

24.3 The Gold Problem

24.3.1 Gold was freely importable into or exportable from India upto the beginning of the Second World War. Private foreign trade in gold has been banned since.

24.3.2 There is no official estimate of gold stock in India, but unofficial estimates put the total stock of gold at around 4500 tonnes. The Reserve Bank of India has an official gold reserve of Rs.219.5 crores - as of March 31, 1979 - which, valued at the "official" price of Rs.84.39 per 10 grammes, would give official gold holdings of about 260 tonnes. Domestic production of gold is around 3 tonnes per annum, from the Bharat Gold Mines Limited (of the Government of India) and the Hutti Gold Mines Limited (of the Karnataka Government). The gold is sold to permit holders for industrial use.

24.3.3 The current annual demand for new gold ornaments is currently placed at around 85-90 tonnes. As per data furnished by dealers to the Gold Control authorities, around 75 tonnes of 'new ornaments' are sold annually by nearly 10,000 dealers in the country. (See Annex 24.1.) In terms of Gold Control all new ornaments must be based on the melting of old ornaments, but this in fact is not so. Apart from the 'dealers', the Gold Control authorities estimate that private jewellers handle another 10-15 tonnes of new gold ornaments annually. This figure could, of course, be higher.

24.3.4 As hinted earlier, while Gold Control provides for fabrication of new gold ornaments only by the melting down of old gold ornaments, in fact, a substantial part is based on new gold — the regular supply of which is maintained by smuggling. It would be reasonable to estimate that at least 50 per cent, if not more, of new ornaments are based on smuggled gold. This would give an annual rate of smuggling, as of now, at around 45 tonnes of gold.

24.3.5 These estimates can be derived in another way. Messrs Consolidated Gold Fields Ltd. of London prepare regular estimates of the demand for gold for ornament making, in the world. For India, Pakistan and Bangladesh, these estimates are reportedly based on their estimates of gold smuggled into these countries, in turn based on "insurance" of gold shipped out from the Gulf countries. (It is, of course, not indicated at all by this source as to how these estimates are derived, but in knowledgeable circles, it is stated that these estimates are prepared on the basis indicated.) These estimates are given in Annex 24.2. It would be seen that while the amount of gold presumed to have been shipped to India has fluctuated within wide limits, the average quantum of gold thus shipped into India over the past five years was around 35 tonnes per annum. There is likely to be some additional smuggling of gold, and import of gold ornaments into India from Hong Kong, Singapore and Bangkok, through other means. One can roughly conclude that the quantum of gold smuggled into India would lately be at least 45 tonnes per annum. For the sake of convenience, a rough figure of 50 tonnes of smuggled gold is assumed to be the current rate of inward smuggling of gold into India.

24.3.6 It must be emphasised that this is only one of many estimates of gold smuggling into India; some estimates putting the figure much higher, closer to 100 tonnes per annum. In fact, if the average of the figures for 1968-77, as per Annex 24.2, be taken, the annual quantum of gold required for making jewellery in India — equated here to the quantum of gold smuggled into India — would be seen to be 91 tonnes. It may also be mentioned that as far back as 1900-1930, import of bullion into India(as treasure) was of the order of 90 tonnes per annum, on an average.1/ While the geographical territory of India has since changed, and Burma, Pakistan and Bangladesh are no longer part of the territory covered by the earlier data, incomes and population since the first three decades have risen. All in all, one may reasonably assume that the smuggling of gold into India would not be less than 50 tonnes per annum on an average, and possibly more.

24.3.7 At gold prices ruling at the end of March 1979 in London, 50 tonnes of gold would involve foreign exchange worth approximately Rs.300 crores. The expenditure of householders — in rupees — would be considerably more, not counting the new ornaments made by melting down old ornaments, since the Indian price of gold is significantly higher than the international price. Again taking the Indian price of gold at the end of March 1979, the making of fresh new ornaments from around 50 tonnes of smuggled gold would involve a drain of an amount higher than the import value of gold. This indicates one aspect of the gold problem.

24.3.8 There has been considerable debate, both within the country and outside, as to the reasons behind and the consequences of the spurt in gold prices in the last few years, particularly during the present decade, after the break-down of the "Smithsonian" agreement on exchange rates in March 1973. One fundamental cause of the run-away increase in the international price of gold has been the loss of confidence in 'reserve currencies', particularly in the U.S. dollar, and the search for a non-depreciating asset by the oil-rich potentates, who have found increasing restrictions imposed by developed countries on the inflow of such funds. The increase in the international price of gold since the oil price hike of late 1973 has been aggravated lately by the uncertainties of exchange rates as well as in regard to price stability and the stability of other assets around the world. There has thus been increasing demand for gold as a form of asset; and since the Indian price of gold has also generally moved somewhat parallel to the international price of gold, there has been an unfortunate resurgence in India lately, in the demand for gold as an "asset". This demand has arisen not only as a hedge against inflation but also for speculative reasons. The following table gives, for the past few years, the real return from gold holdings as

---

1/ See, Reserve Bank of India, Report on Currency and Finance, 1941-42, pp 64-65. The import of gold and sovereigns into India, over 1900-01 to 1930-31 was 89.2 million ounces, or 2773 tonnes, i.e. at an annual rate of 89.46 tonnes.

compared to investments to which government has been encouraging savings to flow.

Table I

Real rate of return from gold holding and from other assets

	Inflation rate	Percentage increase in gold prices	Interest on one year's fixed deposits in banks	Interest on first class company deposits	Real return from gold holding	Real return from company deposits
1972	7.6	17.0	6.0	11.25	9.4	3.65
1973	21.7	40.2	6.0	10.00	18.5	(-) 11.70
1974	23.0	55.0	8.0	11.50	32.1	(-) 11.50
1975	3.9	9.2	8.0	11.25	5.3	7.35
1976	(-) 1.9	(-) 0.6	8.0	12.00	1.3	13.90
1977	6.9	13.3	6.0	12.00	6.4	5.10
1978	(-) 1.7	16.6	6.0	13.00	18.3	14.70

24.3.9 The real rate of return on bank deposits is not shown above because it would be much more unfavourable than the real rate of return on company deposits. It would be seen that except for two years, the return from gold holding has been higher than on fixed deposits with first class companies; and during the two inflationary years of 1973 and 1974, gold holding has doubtless been much more profitable than the holding of all other assets. This is the second aspect of the gold problem, arising from the possibility of profit from gold holding as a form of asset.

24.3.10 The above development stems essentially from the movements in the international price of gold. Even though the gap between the Indian and the international prices of gold has widened since 1975, the two prices have moved generally together (with a sudden widening of the gap in 1976 and again, recently) as the chart given at Annex 24.3 would show.

24.3.11 It may be useful to again draw attention to the run-away increase in the international price of gold from around 1973. Though the official gold price had been "unfrozen" as far back as March 1968, the increase over the next five years or so had only been from the IMF rate of $35 per ounce to around $42 per ounce. From this level, the price of gold has now risen, as of the end of March 1979, to about $238 per ounce. Even though the USA has delinked the dollar from gold — thus, in theory, releasing US Government gold stocks from being maintained as currency reserve — and the IMF has also changed over to SDR as the international unit of measurement and asset in lieu of gold — and lately, the IMF has also been auctioning gold in the market— the speculative demand for gold in the international markets has remained strong. This presents the third aspect of the gold problem — namely, the impact of international developments on the Indian demand for gold as a form of asset (rather than merely for purposes of ornament making), as well as for speculation.

24.3.12 This demand for gold in India, if allowed to persist, can under present laws be met only by smuggling . Inspite of various restrictions under Gold Control, and the vigilance of the customs authorities, there is, as indicated earlier, regular smuggling of gold into the country.

24.3.13 The smuggling of gold has been financed in diverse ways. Prior to the demonetisation of the Indian rupee in the Gulf countries in April 1959, this was an obvious source of financing the smuggling of gold, but this source has not been available since April 1959. Thereafter, a basic imbalance in the exchange rate of the rupee, which led to deliberate over-valuation of imports and under-valuation of exports as well as remittances of invisibles outside of normal banking channels, led to an easy method of financing the inward smuggling of gold, In fact, this situation doubtless encouraged gold smuggling since a higher payment in rupees — above the official exchange rate — could easily be made through the realisation from the sale of gold in India, at a price higher than the international price. The foreign exchange not remitted through banking channels thus provided a convenient means of payment for gold purchased abroad.

24.3.14 Smuggling involves a cost. The cost would also change over time, as the risk increases, or the mode of payment for smuggled gold becomes increasingly more unattractive. As long as there was under-invoicing of Indian exports, or remittances to be sent into India outside of banking channels, there was a ready source of payment for gold to be purchased in the international market. With a realistic exchange rate, gold smuggled into would have to be paid out of exports smuggled out. This would make gold smuggling more difficult than under conditions of an over-valued exchange rate of the rupee. The cost of smuggling could also increase with the tightening of surveillance. The COFEPOSA and measures adopted against smugglers in 1975 and 1976 could have pushed up the cost of smuggling. It has been stated that the cost of insurance of smuggled gold has gone up with greater surveillance and seizures. Conversely, smuggling of gold would be profitable as long as the price differential between the Indian and international prices of gold exceeds the cost of smuggling. The following table brings out the average difference between the Indian and internataional prices of gold.

Table II

Average Difference between Indian and International Prices of Gold

		(Rs. per 10 gms)
1969	....	76.75
1970	....	96.15
1971	....	96.90
1972	....	93.18
1973	....	82.27
1974	....	99.64
1975	....	110.07
1976	....	179.40
1977	....	181.80
1978 (Jan-Sep.)	....	200.88
1978 (Oct.-Dec.)	....	278.66

24.3.15 The cost of smuggling is, of course, not known. But the generally parallel movements of the Indian and international prices of gold, with a sudden jump in the differential between the two prices of gold since 1976, and again from the last quarter of 1978 may be seen from the Chart given in Annex 24.3. One could reasonably form the following hypotheses from these data:—

(a) Between 1970 and 1975, the price differential between the two sets of prices was reasonably stable. From the widely divergent figures of gold uses for ornament making, as given in Annex 24.2, it may be assumed that the entire demand for new gold was met by smuggling. Until 1974 or so, the total cost of smuggling did not clearly exceed, say, Rs.70-80 per 10 gms. to make the smuggling of gold worthwhile.

(b) It would also be legitimate to hypothesise that while the demand for gold ornaments is likely to be reasonably stable, the actual smuggling of gold, and variations therein would depend on a number of factors. The more unrealistic the exchange rate, the more likely it is that a large part of exchange earnings would be brought in through non-banking channels; and gold import would be a very convenient way of doing so. Clearly, there is a sector which holds the gold smuggled into the country, and releases it as per the demand for ornaments. It would be difficult to otherwise explain the extreme fluctuations in the figures of gold import — stated to be purchases of gold jewellery — in India over 1970 — 1977, as per Annex 24.2.

(c) Obviously, the hoarding of gold or gold jewellery is a convenient form of holding black money. The implications of this would be indicated later.

(d) The cost of smuggling has clearly been going up. Taking only the past ten years or so, the difference between the Indian and international prices of gold may be seen to have varied from around Rs.50 per 10 grammes in the pre-1969 years to Rs. 90 ± Rs.10 per 10 grammes over 1970 to 1974, jumping to Rs.180 over 1976-1977, and lately to Rs.280 in the last quarter of 1978 and first quarter of 1979.

(e) The wide divergence between the Indian and international price of gold may be ascribed partly to the cost of smuggling, plus the difficulty or cost of financing gold smuggling (the latter depending on the availability of exchange receipts anxious to find non-banking channels of remittance. In 1969 and 1970, the Indian price of gold was around 200 per cent of the international price; the percentage has thereafter varied from around 25 per cent to 50 per cent. The extremely large difference between the Indian and international prices of gold can only be ascribed to speculative factors in the price of gold, perhaps also to the increasing problem, of financing large scale smuggling of gold, but the increase in 1975 and 1976 perhaps reflected a change in the cost of smuggling, arising from the higher cost of insurance and a general escalation of costs all round.

(f) Notwithstanding the increased difficulty of smuggling, it may be concluded that one way or the other the entire demand for new gold in India has been met through smuggling. Although Annex 24.2 would, in fact, suggest highly fluctuating tonnages of smuggled gold, from a peak of 215 tonnes in 1970 to a low of 14 tonnes in 1974, rising to 40 tonnes in 1977, the fluctuations could perhaps arise from speculative stock changes with the holders of gold stock in India, and not because preventive measures have really succeeded in curtailing smuggling. If this were true, it would suggest the fourth problem of gold in the Indian context, namely that the entire demand for new gold in India gets met through smuggling.

24.4 Gold auction

24.4.1 The Government of India's decision to auction gold from the official stock was announced by the Union Finance Minister in his budget speech in February 1978. The Union Finance Minister said —

> "Despite the utmost vigilance of the customs authorities and considerable seizures and confiscations of smuggled gold, it is an unfortunate and distressing fact that gold smuggling has to some degree continued. The substantial difference between Indian gold prices and international gold prices has served as a temptation to smugglers. Gold smuggling is not only illegal but has helped to sustain black money operations and foreign exchange racketeering. It is, therefore, necessary for us to think of economic measures in addition to preventive measures to tackle this evil of gold smuggling. We have given very careful thought to the question and have decided to commence the sale of gold from the stocks held by Government".

The Finance Minister also expressed the hope that receipts from gold sales would reduce the budgetary gap of Rs. 1,050 crores.

24.4.2 Following the decision by the Government of India to sell gold to the public from the stocks of the Government, the Reserve Bank of India held fourteen auctions between May 3, 1978 and October 23, 1978. The Government announced suspension of gold auctions on October 26, 1978. The results of these fourteen

auctions are summarised in the following table:-

Table III

Gold Auctions in India: 1978

Auction number	Date of auction	Date of result	Number of successful bidders	Gold Sold: Quantity in Kg.	Gold Sold: Value (Rs. lakhs)	Gold Sold: Average price range per 10 gms. (Rs.)	Price in Bombay market (Rs. per 10 gms.): on auction day	Price in Bombay market (Rs. per 10 gms.): on result day
1	May 3	May 5	229	492.6	322.19	633	690	785
2	May 16	May 18	641	1,498.7	956.36	635	700	702
3	May 31	June 2	598	1,204.4	767.49	636	666	670
4	June 14	June 16	1,004	1,504.9	970.55	644	685	688
5	June 28	July 1	1,193	1,618.9	1,047.08	646	673	677
6	July 12	July 14	1,100	1,520.4	982.92	645	680	683
7	July 26	July 28	1,031	1,446.9	937.99	645-654	683	687
8	Aug. 8	Aug. 10	-	-	-	-	722	740
9	Aug. 17	Aug. 19	605	853.1	609.37	711-721	744	744
10	Aug. 30	Sept. 1	699	935.3	686.25	731-751	763	760
11	Sept. 13	Sept. 15	686	821.1	610.60	741-761	763	763(a)
12	Sept. 27	Sept. 29	752	975.4	724.92	751-761	774	782
13	Oct. 12	Oct. 16	-	-	-	-	870	900
14	Oct. 23	Oct. 26	21	19.2	16.12	839	830	830

(a) As on September 16 since the market was closed on September 15.

24.4.3 The total sale of gold in these fourteen auctions over six months amounted to approximately 12.9 tonnes, and brought in Rs.86.3 crores to the exchequer. However, the auctions did not have any moderating influence on the price of gold in the market. This, of course, has not been one of the stated objectives of the policy of gold auction, though the policy did attempt to reduce gold smuggling. However, if smuggling of gold be taken to depend on the difference between the Indian and international prices of gold, with the steady increase in the market price of gold — the price shot up to Rs. 960 per 10 grammes in Bombay on October 14 — it does not appear that gold auctions could have had any impact on the smuggling of gold into the country, when gold prices were rising partly in response to an increase in the international price of gold. In other words, gold auctions could bring in revenue but could not succeed in controlling smuggling.

24.4.4 Two other hypotheses appear to emerge from the data available from the Gold Control and the auctions of gold by the RBI. First, it would appear that there is a strong oligopolistic tendency in the matter of large dealings in gold, only 176 dealers in the country reporting sale of 20 tonnes of new jewellery, as against a total of 75 tonnes sold by all registered dealers numbering nearly 10,000 (Annex 24.1). The RBI on occasion also refused to sell any gold (against auctions number 8 and 13, vide Table III in para 24.4.2) because the price offered for gold was significantly below the ruling market price for gold. Secondly, only a few people in the country appear to have substantial amounts of gold jewellery, or at any rate have reported possession of gold

jewellery as required under the Gold Control. The behaviour of gold prices in India after the Reserve Bank's gold auctions indicates the presence of both strong speculative tendencies as well as lack of competition in the gold trade, with control over large supplies of gold by a few gold dealers. In fact, it is the handful of 176 out of nearly 10,000 dealers, representing less than 2 per cent of the total number of dealers, who appear to be in control of the gold trade in the country. It is also obviously only a small group in control of the gold smuggled into the country; and their behaviour could not obviously be governed by the sale of less than 13 tonnes of gold through the RBI auctions.

24.4.5 The other point to note is that as of December 1974, the number of families having declared their excess possession of gold (as per the Gold Control Laws) was just 2969. The total quantity of gold ornaments (including articles declared under the Gold Control Act) declared upto the end of 1974 is reported to be 59.69 tonnes — of which only 3.40 tonnes were declared by private individuals and families, 40.03 tonnes were pledged with pawn brokers and 16.26 tonnes were held by religious institutions. There are, of course, no estimates of the quanitity of gold with private individuals and families other than those who had declared their excess possession in terms of the existing law. Detections of such violations have been few: 50 in 1970; 13 in 1971; 19 in 1972; 43 in 1973; and 134 in 1974. There is, of course, no official machinery capable of undertaking a comprehensive survey of gold holding by private individuals and families. It would, however, appear that there are not many people with really substantial gold holdings. One could, therefore, presume that the problem of 'gold' touches perhaps only the fringe of the population.

24.5 Assessment and policy options

24.5.1 It would appear from all available evidence that gold control has not been able to stop smuggling. If it was intended initially to wean people away from the gold habit, that objective could be written off with the amendment introduced in September 1963, permitting individual goldsmiths to fabricate gold jewellery of any carat, by melting down existing ornaments. The amendment of 1966 merely formalised the manufacture and sale of gold jewellery by all dealers under this escape clause, which was later formalised under the Gold Control Act of 1968. It can, with justification be asked as to what precisely gold control seeks to achieve today, except the harassment of small jewellers and the lay public alike, since any large inspection directorate must show some activity to justify its existence.

24.5.2 Gold import is today not permitted, but Gold Control is not required for this prohibition. In the circumstances, the present provisions of Gold Control cannot check or moderate the smuggling of gold. It does not prevent the manufacture or possession of gold ornaments. It requires only 'registration' with Gold Controller, of ownership of gold in excess of 2 Kg. per person or 4 Kg. per family. It also imposes certain limitations as to private refining of gold. The latter could remain, but the utility of the other provisions of Gold Control — as at present operated — is not clear.

24.5.3 But the Gold problem is a serious one. If it is accepted that whatever the demand for gold, it would get smuggled into the country and kept in the form of gold jewellery — partly as ornaments, partly as a form of asset and partly for

speculative purposes — the implications would be quite serious. It would imply a regular outgo of foreign exchange to the tune of at least Rs.300 crores per year, and possibly much more, for the inflow of smuggled gold.

24.5.4 There is one more pernicious impact of gold. Gold jewellery is a convenient outlet for 'black money'. In fact, it is a convenient method of converting black money into white because there is no record of jewellery handed down from mother to daughter in Indian society, and many are the instances of large quantities of gold jewellery being claimed as "Stree Dhan" — property of the daughter automatically inheriting the jewellery of the mother — where there has been no ancestral property, and where the jewellery is clearly of recent vintage.

24.5.5 In all the enquiries made by the Committee, the general opinion voiced has been that given the deeply ingrained desire of the Indian people for gold ornaments, this is a demand which must necessarily be met. These replies partly reflect the class character of the people who have tendered evidence on this subject. Indeed, from all evidence, it appears that the present rush for gold stems from a preference for gold as an "asset", fanned by the presence of black money and the speculative demand for gold, due to the steep increase in the international price of gold. The rise in the international price of gold has at times been even ahead of the inflation in world prices, arising from a speculative move away from the holding of reserve currencies to the holding of gold by speculators in exchange rate fluctuations. Unfortunately, the speculative demand for gold as an asset has lately been quite strong in India. Commodity prices in India have not increased at anything like rate of world inflation in the last five or six years. The price of gold in India, however, has risen at a rate faster, of late, than in the rest of the world, as the Chart at Annex 24.3 would indicate.

24.5.6 There is, strictly speaking, no reason why the demand for ornaments cannot be satisfied with ornaments made of lower carat gold. Iran has never permitted gold jewellery of more than 18 carats; and until the demonetisation of gold, the U.S.A. did not permit the use of more than 8 carat gold, for ordinary consumption purposes.

24.5.7 The experiment in regard to 14 carat gold ornaments has never been given a fair chance in India. The failure of this policy — first announced in January 1963 — was implicit in the policy amendment made in September 1963.

24.5.8 To break the gold habit, to really wean people away from gold, to reduce the value of gold as an asset, a return to 14 carat gold would appear to be rational, but it may also appear as of today to be a chimerical idea. The craving for pure (or nearly pure, i.e. 22 carat) gold ornaments may be irrational, even obscurantist, but rationality cannot always be enforced in a situation charged with emotion.

24.5.9 What are the policy options, and what are the implications of each alternative? Clearly, gold control, as it exists today, is a measure of control which can achieve little, even if the organisation is strengthened several fold. The options, if the stark reality is to be faced, are —

(a) To allow the import of gold to meet domestic demand. At the least, this would remove the payment now being made for insurance and other foreign exchange costs of gold smuggling. The import would certainly be a minimum of 50 tonnes per annum, and possibly more,

gold being treated as any other item of consumption which may as well be imported rather than to be smuggled. This would involve a foreign exchange expenditure of at least Rs. 300 crores and possibly even upto Rs. 600 crores. The Government could impose an import duty at a rate close to (but a little lower than) the cost of smuggling. This would help to raise revenue; cut out smuggling; and provide an import item with which to reduce the burden of inflation arising from an increase in foreign exchange reserves. The Committee would not favour such an option which negates all concepts of progressivism, and, indeed, appears to be of the nature of counsel of despair.

(b) The second option would be to allow the present situation to continue, to increase the degree of vigilance in the matter of smuggling, and to hope that smuggling of gold would come down. This would ignore the reality that one way or the other, smuggled gold would find its way into India. The happiest people in this case would be the smugglers, and those who can get a cut from the smugglers. The people would not, by and large, know the exact cost of the policy, in terms of smuggling of gold, which cannot be precisely estimated anyway. The facade of gold control may in such event continue. The Committee would not favour such a negative and defeatist approach.

(c) The third alternative would be to cut the nexus between gold for hoarding and gold as a decorative metal for ornament making. The rational approach would be a return to the concept of 14 carat gold. But any talk of 14 carat gold would immediately evoke (quite mistaken) opposition. The Committee would favour gold control to switch over to compulsory enforcement of 18 carat gold jewellery, in place of the present 22 carat gold jewellery. Leastwise, it would reduce the quantum of gold required for ornament making by 18 per cent. And it may also induce a breakaway from the preference for gold for hoarding on the notion that gold is now becoming "impure."

24.5.10 The Committee would recommend that Gold Control should be amended and manufacture of gold ornaments above 18 carat purity totally prohibited. Three concomitants to the success of such a policy would be —

(a) to ensure that the rate of inflation in the economy is kept pegged down, so that the real rate of return from other investment is positive and not negative; and

(b) to ensure that 18 carat gold is available from the mints, freely. This would still require the import of gold, to meet any gold that may be required. It would also require total prohibition of all private refiners; and the supply of 18 carat gold bars on demand, to dealers and jewellers; and

(c) to provide people with a convenient form of saving which combines security with a positive return with the characteristic of semi-liquidity which gold offers to the masses of people. This is essential if gold control in any form is to succeed.

24.5.11 It may be added in this connection that gold ornaments sold as 22 carat jewellery today, are generally of much lower gold content, usually of 18 carats, according to knowledgeable circles in the gold trade. This is how the poor people get cheated; and this comes out when ornaments are sought to be sold or pawned or melted. When ornaments can only be made of 18 carat gold at a maximum, the possibility of cheating would be less.

24.5.12 The other change in gold control required is to drastically reduce the ceiling on gold ornament holding — today fixed at 2 Kg. per adult (or 4 Kg. per family) — which permits families with four adult ladies to hold upto even 8 Kg. of gold ornaments without declaration, equivalent to around Rs.8 lakhs, or so. The limit should not exceed 1 Kg. per family, and gold in excess should be subject to a higher rate of wealth tax.

24.5.13 It could also be announced that after proper alloying techniques are developed, and after an adjustment period when the requisite equipment would be allowed to be imported, Government would reduce the gold content of jewellery compulsorily to 14 carats, so that the "asset" character of gold is gradually eroded.

24.5.14 A word is necessary in this connection on the export of gold jewellery which, it has been claimed, has enormous potential, and for which a special Import Replenishment Scheme is currently in operation.

24.6 Export of gold jewellery

24.6.1 The import replenishment scheme for gold jewellery export came into operation in August, 1978 on the ground that there is a very large potential market for gold jewellery especially in West Asian countries. The scheme envisages the import of pure gold through the State Bank of India for the purpose of replensihment against the export of gold jewellery, the f.o.b. value of jewellery having a value added of not less than 20 per cent as compared to the value of pure gold content in the item exported. The first sale of pure gold by the State Bank of India under the scheme was made in Bombay in December 1978 when 5173 gms. were sold to two parties at a concessional rate of Rs.590 per 10 gms., as compared with the price of Rs.825 then ruling in the Bombay market. The State Bank of India obtained this quantum of gold from the Reserve Bank of India as a loan. The State Bank of India is supposed to make its own arrangements for buying gold in international markets in future. In January 1979, a replenishment scheme for the export of studded gold jewellery items was announced.

24.6.2 The Committee understands that the international market in gold jewellery varies from 9 carats to 14 carats. Gold jewellery of a purity higher than 14 carats is very rare, in fact practically non-existent. The essential ingredient in international trade in gold jewellery is "hall-mark" in regard to the quality and the gold content of the jewellery, and the design or artistic merit of the jewellery. The Committee has also examined the figures of gold jewellery export from India. Annex 24.4 gives figures of India's export of diamonds, other stones and gems and jewellery from 1963-64 to 1977-78. It would be seen that the maximum export of gold jewellery from India is only of the order of Rs.4.8 crores in 1977-78. As against this, export of diamonds was as much as Rs.435 crores, of precious and semi-precious stones Rs.22 crores; and of various other types of jewellery including pearls, synthetic stones and non-gold jewellery Rs.7 crores.

24.6.3 The Committee also understands that the largest export of gold jewellery in the world market is from Italy where the craftsmen are attuned to the latest world fashions and designs. The Italian craftsmen are totally unused to working with high purity gold, the maximum amount of gold jewellery fabricated being usually of 9 and 12 carats. These craftsmen also use some very simple equipment, as for example, wire drawing machines through which thin gold wire of different thicknesses can be drawn which can thereafter be crafted into diverse kinds of jewellery, as against the practice of hand drawing of even gold wire in India.

24.6.4 The Committee also understands that in India, as the gold trade is at present constituted, the possibility of any major break-through in the export of gold jewellery is negligible. The craftsmen in gold jewellery are generally poor unorganised people who cannot take any advantage of any of the schemes for export promotion that Government may devise. The major dealers in gold jewellery are not really interested in exports because the profitability of sales within the country is very much higher arising mainly from the fact that gold jewellery sold as 22 carat jewellery is usually of 18 or 19 carats. The Committee therefore feels that there is no merit in persisting with the gold jewellery export scheme as at present formulated, the import replenishment formula not being of any particular value in promoting exports of gold jewellery should be given up. If at all the Government wishes to promote the export of gold jewellery, the Committee feels that some official organisation like, say, the Hindustan Diamond Company Ltd. - in association with Handicrafts and Handlooms Exports Corporation (HHEC) — should be entrusted with the task of organising the securing of orders for gold jewellery from abroad, based on modern designs, and have them fabricated within the country by thousands of gold craftsmen and workers who have the requisite skills, but are not properly organised. These craftsmen may be permitted the facility to import the simple and inexpensive equipment required to increase their productivity and to produce gold jewellery and studded jewellery with gold content at the levels demanded in the international market, namely, upto 14 carats.

24.6.5 Such a policy would also head off any agitation or disruption of the type that had characterised the announcement of gold control in January 1963.

24.6.6 In any case, the Committee feels that, as at present constituted, the export of gold jewellery is not likely to be a major factor in our export effort in the near future, and that continuation of the present scheme is likely to redound on any effort to bring down the gold content in gold jewellery for use within the country on the lines recommended earlier in paragraph 24.5.9.

24.7 Implications and safeguards

24.7.1 There would, of course, be a storm of protests from diverse quarters. The real opposition would come from the handful of dealers who can today easily legitimise smuggled gold merely by melting down smuggled gold in brick form to a lump, and then claiming that the gold has been obtained by melting down old ornaments. Quite apart from eroding the "asset" character of gold, the policy to limit all gold ornaments to no more than 18 carats would make smuggling more difficult, unless the smuggled gold comes by way of 18 carat gold bricks. Apart from increasing the cost of smuggling, this would not happen if gold is imported, and sold freely from the mints in the form of 18 carat bars (after melting and alloying), at a price equal to the international price of (equivalent) gold plus a little less than the cost of smuggling.

24.7.2 There would doubtless be opposition from goldsmiths. The relaxation from 14 carat gold was made in September 1963 to allow goldsmiths a period of transition in which to find other occupations. Ironically, their number has been growing. In one year, the number has increased from 2.39 lakhs (in 1976) to 2.45 lakhs (in 1977). The real problem of 14 carat working had been the need for some new equipment. The problem should not arise for 18 carat gold — because many ornaments today passed off as 22 carat gold are really of 18 carat gold — though doubtless the argument would be used to oppose the introduction of 18 carat jewellery. Import of simple tools and equipment by jewellers should be permitted freely to facilitate working with lower carat gold. If necessary, Government could subsidise the import of any special tools of trade required by the jewellers, out of the proceeds of the import duty on gold. For an import of Rs.300 crores worth of gold, at a low duty rate of 33 per cent, the revenue would be Rs.100 crores. For 2½ lakh goldsmiths in the country, a subsidy of upto Rs.4000 can be paid, out of the Rs.100 crores collected as import duty in one year, to let them re-establish themselves, only so long as the long term problem gets solved.

24.7.3 The number of gold dealers has also been on the increase, from 9984 in 1976 to 10260 in 1977. The 'dealers' in gold should be phased out, and 18 carat gold bars should be made available to jewellers and goldsmiths by the Government mints, through nationalised banks, at international prices plus a mark-up as indicated earlier. When goldsmiths get attuned to using equipment for production of jewellery with lower purity, there should be a reduction in the purity of gold to 14 carats for jewellery making. When it is possible to step down further to 14 carat gold, the need for gold import is likely to go down substantially, unless the export of 14 carat jewellery gathers momentun. In the latter event, the import would be more than self financed.

24.7.4 The number of pawnbrokers (dealing in gold ornaments) was 15000 in 1977. Their existence is a measure of the value of gold ornaments as an "asset". However, ornaments shrink in value sharply when pawned. Pawnbrokers holding gold ornaments in excess of the statutory minimum for declaration, held as much as 58.5 tonnes of gold in 1977. Interestingly, the quantum of gold held by pawnbrokers increased from 40 tonnes in 1974 (vide para 24.4.5). A very large part of ornaments pawned are not redeemed. This underscores the need to provide people with a reliable, profitable semi-liquid form of asset which can replace gold. A way should be found for people to surrender their gold ornaments to mints, when they wish to do so, and claim the value minus the melting charges, after assaying.

Gold for industrial use

24.7.5 In 1977, India consumed 0.1 tonnes of gold for the electronic industry, 0.9 tonnes for miscellaneous industrial and decorative uses (like zari making) and a negligible quantity for dentistry. (The number of permits issued for release of gold for industrial uses was 1553 in 1977.) This small requirement could be met as of now.

Gold Bonds

24.7.6 Thus, two safeguards are necessary for the success of any new scheme involving the gold content of jewellery. First, there should be some way to provide people with a good alternative asset where small savings of people can be accumulated. Secondly, the Government has to provide some positive inducement to the people to

part with gold. The issue of gold bond is one such means. So far three gold bond schemes have been floated under which the Government received a total quantity of 36.22 tonnes of gold. The first scheme introduced in November 1962 carried an interest of 6.5 per cent per annum. The value of gold was calculated at the then IMF rate. Under this scheme a quantity of about 16.32 tonnes of gold was obtained.

24.7.7 The second bond scheme was launched in February 1965. Under this scheme the value of gold was, as in the first bond, to be calculated at the IMF rate. The third gold bond, known as the National Defence Gold Bond 1980, was launched in October 1965. A premium of Rs. 3 per 10 gms. of gold of .995 fineness was to be paid as compensation if the subscription was in the form of gold ornaments. This was to offset the loss in making-charges of the ornaments. A quantity of about 6.2 tonnes of gold was obtained under the second bond scheme and 13.7 tonnes under the third bond scheme.

24.7.8 All three gold bonds carried the usual immunity from the various laws as to the source of the gold. In all the three bond schemes immunity under the various direct taxes laws as well as under the Customs Act was also given. However, income tax was to be paid on the interest income.

24.7.9 The response to the three gold bonds cannot be considered to be very encouraging. With all the concessions announced, only 36.22 tonnes of gold could be mopped up, or much less than the annual quantum of gold smuggled into the country. Even when the bond was promised to be redeemed in gold, as in the case of the third bond, the response at 13.70 tonnes, was lower than in 1962 in respect of the first gold bond.

24.7.10 Since the objective is to wean the people away from gold, any gold bonds to be issued by the Government should not obviously be redeemed in gold. It would be easier to attract the people to invest in gold bonds if the intrinsic value of the bonds is protected through a scheme of indexation, so that without physically possessing gold, the bond holder can get all the benefits of gold as an asset. However, this could encourage the continuing smuggling of gold and contribution to gold bonds in preference to other assets unless it is provided that there would be no immunity against the disclosure of the source of gold. The scheme could be tried experimentally to see whether it succeeds in unearthing large quantities of gold, and therefore is able at least to wean people away from the habit of gold holding in the form of ornaments. The scheme would therefore be worth trying only in accompaniment with the scheme for banning the continuance of 22 carat gold, even in respect of existing jewellery.

24.7.11 Whether or not gold bonds are tried out, some readily encashable form of saving, in lieu of gold ornaments, which would be simple, carry a positive return, and yet be easily encashable, has to be evolved. It has to be a scheme that can reach down to the masses of people, so that the craving for gold is reduced.

Chapter 25

DECENTRALISED SECTOR

25.1 Introduction

25.1.1 The village industries sector consists broadly of traditional cottage and household industries (viz., handloom khadi and village industries, handicrafts, sericulture, coir industry etc.). As distinguished from modern small scale industries, the traditional cottage and household industries are located mostly in rural and semi-urban areas. A large number of these traditional industries do not use power-operated appliances and equipment. These also involve relatively lower levels of investment and technology and provide largely part-time employment. A very large number of the persons dependent on traditional industries belong to the poorer sections of the society and live below the poverty line. However, a number of these industries produce certain essential articles required by the masses and also some other items which are exported. The number of persons employed in the principal traditional industries is estimated at 140 lakhs, including about 57 lakhs in the handloom industry and about 36 lakhs in sericulture, as against about 28 lakhs in modern small scale industry. Much of this employment is neither fulltime nor well-remunerative.

25.1.2 As per recent estimates, in addition to the number of unemployed persons in India, new entrants to the work force are being added every year, the current rate – during the Sixth Plan period – being of the order of six million per year. The Draft Plan (1978-83) has stipulated that after agriculture, household and small-scale industries producing consumer goods for mass consumption hold out the greatest potential for employment. Large scale industry cannot provide the answer to the employment problem. The sheer volume of capital required per worker in organised industry rules out any such possibility.

25.1.3 The problem is to identify the activities for which low capital, employment-oriented production techniques should be encouraged; and also to determine the extent of protection or subsidy to be given to such activities.

25.1.4 The Committee would like to point out in this connection that considering the levels of wage and interest rates prevailing in the economy, in relation to what may be defined as real rates of wages and real interest rates, reasonable subsidisation of decentralised production would be justified in the light of the implicit subsidy enjoyed by large scale industry, particularly in large urban conglomerates. Large scale industry enjoys an implicit subsidy, by way of public investment and expenditure on social services and amenities. The social services in urban conglomerates involve a fairly substantial subsidy on the part of society, which benefits large scale industry. The entire community not only provides but also pays for the infrastructure required to attract industry and labour to the urban areas. Village industries, and economic activity of the cottage industry type enjoy no such infrastructure subsidy.

25.1.5 The extent of subsidy involved in operating social services in urban areas is not generally known. The expenditure for the provision of water, sewage, medical, sanitation and other civic amenties, the losses on urban transport services and the heavy losses on suburban rail transport (all which are of direct benefit to organised industry in urban conglomerates) are of the nature of a subsidy from the general tax-payer to large scale industry.

25. 1. 6 It is difficult to quantify the degree of subsidisation involved in the provision of social amenities, debitable to large scale industry. However, some approximate idea of such social subsidisation can be formed from the losses (or expenditures not recovered from the recipients of the benefits) incurred by selected public sector undertakings which have had to start their own townships and which are single enterprise townships. Annex 25. 1 gives a brief resume of the "current losses" on all such civic amenities in a few selected "single enterprise townships", set up by public sector undertakings. It would be seen that such subsidies account for something like 8 per cent 1/ of the "value added by manufacture" in the steel plants; 12 per cent in the minerals and metals sector, and 8 per cent in respect of chemical units. Aggregatively, taking all industries – including those which have not had to incur expenditures in setting up separate townships – the losses of public sector undertakings on social amenities have been 5½ per cent of the value added by manufacture. Taking the first three categories, a subsidy of around 10 per cent of value added may be assumed as the social cost of urban amenities paid by society for industries in large urban conglomerates.

25. 1. 7 The State Governments and local bodies also incur expenditures for the maintenance of civic amenities. The Report of the Seventh Finance Commission brings out the wide gap in the provision of social services by the State in urban areas. Annex 25. 2 gives the per capita expenditure incurred by different States on an annual basis 2/ in urban and in rural areas, in running these civic amenities. In addition, the loss incurred by the Railways on suburban transport (Bombay, Calcutta and Madras) during 1977-78 was as much as Rs. 31 crores; and the loss incurred on non-suburban short distance passenger transport (i. e. for other major industrial towns like Delhi) was around Rs. 50 crores. These losses form part of the subsidy provided by society (or, as in the case of the Railways, by other users of these facilities) to establishments in urban conglomerates. Furthermore, the losses on urban (or city passenger) transport should be added to the subsidy provided by society to urban residents, much of the benefit going to large scale urban industry. The current losses of the Calcutta State Transport Corporation and the Calcutta Tramways taken together, during 1977-78, were of the order of Rs. 12 crores; and of the Delhi Transport Undertaking around Rs. 10 crores. Similar losses have been incurred by numerous other urban passenger transport systems. Losses on urban milk supply schemes have also been quite substantial, roughly equal to the losses incurred on city passenger transport. These facilites, though available to all urban citizens, go partly to benefit urban industry. In short, the infrastructure provided to industries in urban areas involves a subsidy not available to decentralised industry in the rural areas.

25. 1. 8 The objectives of larger output and larger employment are not necessarily in conflict with each other. The problem is to find the areas in which decentralised production is likely to increase total output in the economy. It is possible to achieve this. Just as without adequate purchasing power, existing productive capacity need not be used — as has happened in India over the past decade – in the same manner, an attempt to use technically the most productive

---

1/ BPE Annual Report of the working of Public Sector Undertakings, 1976-77

2/ Based on the Report of the Seventh Finance Commission, 1978, Appendix IV. 4 (i) and (ii)

method of production can lead to a stagnation rather than an increase in aggregate output through loss of employment and owing to the constraint of demand. It is possible to find the areas in which decentralised economic activity may subserve both the objectives of maximising gainful employment and of maximising output.

25.2 Criteria for exclusive development of decentralised sector

25.2.1 As indicated earlier, the focus of attention of the Committee in regard to the decentralised sector is not on modern small scale industry but on economic activity relating to those below or bordering on the poverty line. For example, apart from industries and activities looked after by the Khadi and Village Industries Commission, there is the problem of employment and income of people engaged in handloom weaving, the hand made woollen carpets industry, in sericulture, coir fibre and yarn, in the cashew industry, and various handicrafts. Furthermore, the Committee feels that in this connection, the focus of attention should extend beyond manufacturing activity, to cover "construction" and trading activity. This is particularly important because construction accounts for 6 per cent of the national income 3/ and 5 per cent of the total wage employment, and 1½ per cent of the total work force 4/, while "trade" accounts for some 12 per cent of the national income, and provides employment to 6 per cent of the work force. Much of this activity is decentralised, and on a self-employment basis.

25.2.2 The choice of sectors for decentralised development is crucial, since a wrong choice of sectors to be developed exclusively in the decentralised sector can have exactly the opposite effect to the one desired, and can give a setback to the development process. The criteria to be kept in mind in the above context may be briefly summed up as follows:-

(a) In many areas, there already exists a large segment of production in the decentralised sector which, if eroded, can seriously aggravate the problem of finding new employment opportunities. The protection of employment in these areas may call for only some special efforts in organising raw materials, finance and marketing, since the production activity in these areas already exists. The handloom sector typifies such activity.

(b) Very close to the above are activities where small improvements in production methods, and a little updating in technology and the tools of trade can make for an enormous increase in productivity (and incomes) of a large section of the population. The tanning and leather processing industry typifies this case.

(c) In many areas, decentralised production is cheaper doubtless because of the much lower wage rates payable (or income enjoyed) in the decentralised sector – but the output of the decentralised sector does not find a market owing to difficulties of marketing and sometimes, production is hampered because of difficulties of finance or raw materials supply. In all such cases, production in the decentralised sector is justified, and needs the requisite support and protection.

3/ C.S.O. : National Accounts Statistics, October 1976; Table 49, Page—110.

4/ C.S.O. : National Accounts Statistics; January 1978 for work force data; Economic Survey 1978-79, pp 87-88 for wage employment figures.

(d) Industrial activity where significant expansion in output and services is required under the Plan and where techniques of production are available which would maximise employment per unit of output and capital particularly in consumer goods sector offers scope for production in the decentralised sector.

(e) Even where the productivity of decentralised activity may be low, externalities like the difficulty of terrain, of organising work efficiently in the large scale, and other factors may make decentralised production activity the most economic. Decentralised production is likely to provide the only source of livelihood in such cases. Hilly areas typify such situations where the provision of raw materials and power can increase the productivity of household or cottage industry production enormously, certainly more than any large scale production effort because the time and energy spent in going to work and to return from work may be used to increase the volume of output under localised, decentralised production activity. The decentralised woollen spinning and weaving industry, by way of carpet weaving, shawls and woollen blanket weaving are this type of production.

(f) There are instances where even though large scale organised activity may be more efficient, there are no alternative employment avenues for large masses of workers. Unless there are other strong and valid reasons, the use of capital intensive equipment can reduce employment oriented construction activity. This is an area where unfortunately no social cost/benefit analysis has even been attempted, and only the criterion of private cost/benefit or project costs by alternative means has prevailed. The use of labour saving equipment in all construction activity should be preceded by a careful evaluation of social costs and benefits of alternative methods (or techniques), by using shadow wage/interest rates for deriving the social cost of alternative techniques. Until such calculations are made, the benefit of doubt should go to protect employment, and the use of labour intensive techniques.

(g) Since it has been seen that social subsidy for urban amenities for most industries varies from some 8 to 12 per cent of the net value of output 5/, any production activity which requires no more than a subsidy of, say, around 10 per cent to compete with the large scale sector is unquestionably suitable for development in the decentralised sector. This is not to suggest that the maximum subsidy to be given to the decentralised sector should be 10 per cent. Rather, a subsidy of around 10 per cent should be considered as a minimal automatic compensation for production in the decentralised sector.

(h) Finally, it has been the general experience that retail distribution in the private (decentralised) sector offers vast employment and is also cheaper than Government owned and managed distribution. The problems of

---

5/ Annex 25.1

speculation and profiteering have generally originated from the whole-sale trade sector. The use of the private public distribution system for supply of all essential consumer goods as well as inputs for agri-cultural and cottage industries as a part of public distribution system, with suitable supervision, monitoring and assistance are steps that may subserve both the criterion of employment and of effective public dis-tribution.

25.2.3 The report of a recent Working Group on Khadi and Village Industries has suggested 6/ that "one or more of the following elements would have to form an integral part of the policy frame for cottage, household and village industries" :-

(i) Reservation of spheres of production (certain lines or items exclusively);

(ii) Non-expansion of the capacity of large-scale industries or pegging the levels of production;

(iii) Reservation of raw materials for exclusive use;

(iv) Reservation of areas where large scale units need not be set up;

(v) Imposition of a cess on large scale industries;

(vi) Arrangements for the supply of scarce raw materials;

(vii) Arrangements for research, manufacture of machinery and training of personnel;

(viii) Fiscal concessions to cottage and village industry;

(ix) Provision of required credit on liberal terms for share capital, working capital and capital expenditure;

(x) Preferential treatment in purchases; and

(xi) Subsidisation where necessary on production and/or sale.

25.2.4 The Working Group has also emphasised 7/ that "Social cost benefit analysis should be undertaken and appropriate technologies decided".

25.2.5 To quote further from the report of the Working Group 8/ it "has examined the proposals for reservation of certain products/production lines for the cottage household and village industries sector ..... we would like to deal with them according to their group characterstics.

"(I) The products/production lines wherein near monopoly conditions prevail for cottage, household and village industries sector.......

6/ Ministry of Industry, Government of India, New Delhi, "Report of the Working Group on Khadi & Village Industries", December 1978 (Mimeographed), pp. 44-45.

7/ Ibid, p. 57-62

8/ Ibid, p. 57-62

"(II) The products/lines of production where cottage, household and village industries products predominate i.e. the share in the total production is above 50 per cent........

"(III) The products/lines of production where share of cottage, household and village industries is small.........

"In the case of the first category, Government of India should, as a policy, not allow small scale, medium scale and large scale sectors to enter into it in any form.... In the case of second category, the production should be pegged for other sectors and additional capacity in village industries sector only should be created............ In the case of the third category, preferential treatment may be accorded to cottage, household and village industries products.

"A study has to be conducted annually to review the items of reservation exclusively for village industry sector to make the scheme more efficient."

25.2.6 Many of the recommendations of the Working Group are promotional. Insofar as the policy of reservation of certain industries for production by cottage and village industries is concerned, the Committee would recommend that the suggestions of the Working Group should be considered in the light of the criteria set out in para 25.2.2.

25.3 Problems of the Decentralised Sector: Efforts made so far

25.3.1 Competition from the Organised Sector : A major handicap experienced by the decentralised sector arises on account of the unfair competition that it has to face from the organised sector. Annex 25.3 attempts to present the various decentralised activities along with the corresponding competing activities in the organised sector. The competition from the organised sector could be either purely technological or due to attitudinal and behaviourial reasons. The technological aspect of competition favours large scale production today for several reasons. Interest rates today favour capital intensity; and numerous concessions to capital invested for tax and other purposes further accentuate the covert support to large scale production, unconnected with Indian resource availabilities.

25.3.2 Where there is direct competition between production in the large scale and in the decentralised sectors, and where, in terms of the criteria outlined earlier, the decentralised sector deserves to be protected or subsidised, there are three control/ subsidy options open to the authorities :-

(a) Outright reservation of certain items of production (or activities) for the decentralised sector.

(b) A subsidy to the products of the decentralised sector.

(c) Preferential treatment or even outright reservation in the matter of purchases by Government departments and Government undertakings, of the products of the decentralised sector.

25.3.3 The Committee would like to record in this connection, the unanimous views of the State Government authorities in regard to the need in principle to protect the decentralised sector from the competition of large scale industry. The various Memoranda received from State Governments have given specific and concrete suggestions (in regard to the output of the decentralised sector in the concerned States); and several State Governments, most notably the West Bengal authorities have specifically called for a conscious policy of Government purchases, not only by the administrative departments but also by the public sector undertakings under Government, to assist the growth of production in the decentralised sector. The Committee endorses this view.

25.3.4 A major problem faced by the decentralised sector is lack of orderly supply of raw materials. Be it yarn for the handlooms or raw wool for carpet or shawl making in the decentralised sector; be it good quality tanned leather or plastic raw materials for production of leather and plastic goods; be it tallow or vegetable oils for soap making, or paper and cardboard for making exercise books and boxes for packaging; be it metals for handicrafts and implements, or cane and timber for furniture making and other wood based crafts, the supply of raw materials to the decentralised sector suffers from inadequacy, high price and inferior quality. The problem is acute in several areas where the products of the decentralised sector compete directly with the mill sector. Existing Sales Tax laws and other imposts like octroi compound the problem and unfortunately favour vertical integration. The subsidy required to offset such disadvantages of the decentralised sector would need to be additional to any other subsidy required for other reasons.

25.3.5 The need, therefore, is to ensure that for products and activities chosen as suitable for development in the decentralised sector, the supply of raw materials at a reasonable price, and in adequate quantities (as required) is made available. This may have to be done by —

(a) ensuring that a part of the supply of raw materials is available for the decentralised sector, compulsively if necessary;

(b) ensuring that the cost of these raw materials to the decentralised sector is no higher than to the mill sector through a subsidy, if necessary;

(c) ensuring that the quality of raw materials supplied to the decentralised sector is not inferior to the quality of raw materials available to the organised sector, through the imposition of quality control, laying down of specifications and standards, etc.

25.3.6 A major problem of the decentralised sector has in the past been the lack of finance. The scheme of Differential Rates of Interest can at best touch the fringe of the requirement of funds owing to the ceiling in the availability of funds under the scheme. More than the rate of interest, the real problem of the small producer is the timely availability of adequate finance.

25.3.7 The recommendations of the recent Working Groups appointed by the Reserve Bank of India in October, 1978, after a meeting of the financial institutions with the Prime Minister, which have been accepted, should help to channel banking

funds for the development of the decentralised sector. But the problem does not end here. Banks today are known to be anxious to lend funds for productive activitity in the decentralised sector. But commercial banking is not geared to retailing credit, which is what is required now. What banks are looking for are bankable projects. The Indian artisan has skill. Given adequate raw materials, and given marketing facilities, the artisen can produce quality products. What is lacking is an institutional arrangement for financing the artisan, supplying him with raw materials and marketing his products. There is no shortage today of organisations and institutions supposed to help in the growth of the decentralised sector. But there is a distinct lacuna insofar as the responsibility for marketing is concerned. The Committee feels that this gap should be bridged and State or district or even local institutions of repute should guarantee for the production and marketing of the products of the decentralised sector, so that banking funds can flow without any difficulty for the development of this sector. A minimum of 20 per cent of additional credit to be given annually by commercial banks should be earmarked for the decentralised sector.

25.3.8 It has also been suggested to the Committee by the Madhya Pradesh Government that the subsidy available to marginal farmers and landless workers under the MFAL Scheme as well as the IRD Scheme and similar programmes intended for the uplift of tribal people limits the availability of funds for only two of the 23 industries falling under the purview of the Khadi and Village Industries Commission. Subsidy should be made available to all village industries whether or not within the jurisdiction of the KVIC.

25.3.9 The Committee would recommend that the above lacunae be overcome since a subsidy to assist in the development of the productive capacity of the weakest sections of the population, in the decentralised sector, is the most approperiate and worthwhile use of the instrument of subsidy.

25.3.10 The Committee would also recommend the building of suitable institutions which can act as a link between the small artisan and the banks so that the former can get his full requirement of loans at a reasonable rate of interest.

25.4 Controls in the decentralised sector

25.4.1 The decentralised sector is in general free from the numerous controls imposed on other forms of industrial organisation. There are, of course, some controls which are necessary for either reasons of security or safety, e.g., those pertaining to explosives or use of explosive materials, or for reasons of environmental pollution control though this is not implemented strongly enough; or the usual approvals of State/local bodies in regard to power supply, location vis-a-vis zoning restrictions, etc. There are, however, two restraints, according to the evidence tendered before the Committee, which may be mentioned here. First, in regard to retail trading activity, reference has already been made in Chapter 7 on Essential Commodities on the number of separate licences that every trader has to obtain. Secondly, in the field of electronics industry, there are special restraints which have hindered the growth of decentralised production activity in electronics. While this is not a village oriented industry, it is essentially a highly skilled, decentralised activity - except for the manufacture of components on a mass scale - and many skilled scientific and engineeering personnel have, it has been reported to the Committee, been thwarted in their efforts

to set up small production facilities in the electronics industry, because of excessive control and regulation of capacity. This is one Industry, apparently, where permission is required not only of the Development Commissioner (Small Scale Industries) but also of the Electronics Commission, apart from the concerned State Government and a simplification and liberalisation of the approval procedures appears to be desirable.

25.5 Policy on Reservation/Development Strategy

25.5.1 There is a fairly large list of industries today, numbering 807, reserved for the modern small scale sector. But as indicated earlier, the modern small scale industry is somewhat different in nature, character and impact from village industries. Modern Agro-based industries being set up as "Co-operatives" by Government through National Co-operative Development Corporation are also more like the modern small scale industries without any regard to their damage to traditional source of employment in village Industries. There is need therefore for a separate list of reserved items especially for artisans and cottage industry type workers, where even the modern small scale sector or co-operative modern plant should not be permitted.

25.5.2 In the evidence submitted to the Committee, representatives of village industries have suggested that in Government's purchase programme, there should be a list of items to be purchased specifically from the decentralised sector, quite apart from the purchases to be made from organised small scale industries. In Madhya Pradesh, there are 128 such items (Including handloom cloth) which are today reserved for purchase through the Small Industries Corporation - i. e. meant for industries falling within the category of modern small scale industry. It has been suggested that some of these 128 items could be reserved for purchase exclusively from cottage or village industries. The Committee would recommend such a policy.

25.5.3 The reservation of items for production in the decentralised sector has to be preceded by an examination of the implications, usefulness and cost of the reservation, and followed up by developmental effort, so that production in the decentralised sector does actually materialise, through provision of raw materials and better tools where necessary, finance and marketing support.

25.5.4 The strategy of development has to be somewhat different for urban based decentralised production. For the former, the organisation of raw material supply and marketing of output is likely to be somewhat easier. The selection of items has therefore to be undertaken carefully, and there would also be substantial regional variations. This is being emphasised because the organisational support required by the decentralised sector is likely to involve a subsidy, which is recommended in the interest of employment. In the long pull, however, all subsidies have to be met from surpluses generated in the economy, and hence low productivity employment is to be avoided.

25.5.5 The Committee would refrain from making categorical recommendations regarding specific items that may be deemed to be fit for exclusive development in the decentralised sector. In the evidence received by the Committee, some broad suggestions have been made, both by representatives of village and cottage industries and by a number of State Governments, and the Committee would wish to suggest that the case

for reserving the following types of production activity for the decentralised sector, be carefully examined with reference to the criteria indicated earlier :-

(a) All dhotis and sarees with border (of any kind of width).

(b) All carpet weaving, shawls, and woollen blankets.

(c) Certain types of leather and PVC products (including the stitching of shoes from uppers and sole leather). This policy has to be integrated with the upgrading of tanning techniques, setting up of common facility centres, training, and in fact, some sort of "production co-operation" between the organised and decentralised sectors.

(d) Soap, on the basis of supply of "fatty acids" from the organised sector.

(e) Matches, on the basis of supply of potassium chlorate from the organised sector.

25.5.6 Where production is reserved for the decentralised sector, it would be important to prevent unauthorised production and "poaching", by expansion of output in sectors not supposed to take up the production of the reserved items. Three sectors where such "poaching" is widely practised even today are dhotis and sarees, woollen carpets and leather footwear. It is, in fact, in these three sectors, both from the point of view of protection of existing employment in the decentralised sector and from the point of view of expansion of employment opportunities, for which there is considerable potential, that the encouragement and protection to be given to the decentralised sector is likely to be most useful.

25.5.7 An important safeguard in this connection is that existing production facilities in the large scale sector cannot and should not be just closed down, as that would create numerous problems and waste of assets. An attempt should be made to find alternative uses of such production facilites and labour could be diverted to other employment over a period to avoid disruption. Existing industries in the large scale sector in the areas in which reservation of production for the decentralised sector is deemed to be socially justified, should be asked to phase out their supplies in the domestic market over a period, ranging from, say, five to ten years by which time the productive assets would also get generally depreciated.

Chapter 26

CREDIT CONTROL

26.1 Introduction

26.1.1 Control over credit is essentially a part of monetary policy designed to check the inflationary or deflationary trends in the economy by acting on the demand for money. In a developing economy, a conscious effort is to be made to direct credit towards desired sectors, and use of credit control as a tool of monetary regulation assumes importance. In India, with the accent on growing development expenditure, monetary policy has been concerned more with the avoidance of an excessive increase in money supply with the public than with the correction of deflationary trends, such as experienced in the free market economies from time to time. In this context, apart from other aspects of credit policy and credit management use is made in India of selective credit control as a major instrument of policy for demand/supply management in respect of specific commodities.

26.1.2 The concern of the Committee in relation to credit policy stems from three aspects of control over credit, as indicated below:—

(a) Selective credit control could in theory be deemed to be an alternative to physical controls over supply/distribution where there is an imbalance between supply and demand.

(b) Supply of credit to different sectors at divergent rates of interest could provide a means to subsidise any sector or set of activities.

(c) Control over long-term finance could provide an alternative to physical controls over the licensing of capacity.

26.1.3 Overall monetary and credit policies are under constant surveillance of the central banking authorities. One of the important desiderata in regard to the successful management of any control policy is the need to keep the policy under continuing review. Credit policy is, in fact, one area of economic regulation where the policy is not only under continuing review of the control authorities, there are separate independent bodies appointed from time to time to go into the long-term policy aspects so as to keep credit policy in tune with the policy objectives of Government.

26.1.4 In the area of credit policy more than in any other area of economic policy, there are certain aspects of credit regulation which the authorities have to undertake on a promotional basis, to assist long term growth of the economy on desired lines, and certain other aspects as corrective measures, to meet short term exigencies on a continuing basis. The former have to be formulated in consultation with the Government, in line with Government's broad economic policy. The latter have to be modulated in accordance with the emergence of the economic situation, from time to time.

26.1.5 In the course of the evidence submitted to the Committee, many State Governments as well as different private interests have represented not only about the inadequacy of credit availability in regard to the quantum and the timing

but also about the terms and conditions of the same. This could, of course, be considered natural in a developing economy where there is continuous pressure on resources. The Committee recognises that where the available resources should be deployed is part of the development strategy and not just a matter of review of control policies. Nevertheless, the Committee feels that it is necessary to examine some of these issues because credit policy can be deployed as a non-discretionary control in lieu of physical controls, and can be a powerful policy instrument for the objectives of planned growth.

26.2 Selective Credit Control

26.2.1 In India as anywhere else, the rationale of selective credit control was the need for a special instrument to prevent hoarding which poses a threat to the normal functioning of trade, and where general control of overall purchasing power was ineffective as a means of aligning the pattern of demand with the availability. Selective credit controls have not been common in countries with a well developed market system, where control over aggregate credit has been the instrument of policy used. In developing countries like India, in the context of the imperfections in the market system, recourse to selective credit controls has been felt to be necessary. Also, in circumstances where an increase in public expenditure leads to an overall increase in the liquidity in the economy which results in bank credit being increasingly used for less essential but profitable activities, the credit flow has to be regulated on a selective basis to divert the use of bank money from such users.

26.2.2 The Reserve Bank of India is empowered to regulate bank credit for certain specific purposes under Section 21 of the Banking Regulation Act, 1949. The Act empowers the Reserve Bank to issue directives to all banks regarding the grant of credit for specific purposes, the minimum margins to be maintained in respect of secured advances, the maximum quantum of advances to be given, the rate of interest to be charged and other terms and conditions on which such advances are made. The selective credit controls were formally introduced in May 1956, although, prior to that, the Reserve Bank of India had occassionally resorted to methods of 'moral suasion' or 'direct pressure' for credit regulation. The controls were introduced in circumstances when the increased development outlays financed through budgetary deficits, along with the inelasticities of supply of essential consumer articles such as foodgrains, had induced a shift from cash to non-monetary assets, and bank credit was increasingly used for hoarding such assets for quick profitability. The main reason for using selective credit controls in respect of food articles could thus be seen against the background of the delicate balance that prevailed in the food economy of the country. The same could be said about some of the other essential agricultural commodities which were either speculative in nature or subject to 'demand-induced inflation'. Thus, selective credit control, as it was operated in the earlier years, was basically a control on hoarding.

26.2.3 The operation of selective credit control was in course of time tempered with selective flexibility, and the control was used as an instrument for setting priorities for the overall use of bank money. This was done from 1964 onwards since when use was made of these controls in the pursuit of a policy of reallocation of bank funds among different users, according to priority. The element of selectiveness was increased in successive years in favour of credit needs of certain preferred sectors

such as agriculture, modern small-scale industries, exports, the self-employed and the road transport operators, and this was done both by encouraging banks to increase their lendings to these sectors as well as giving concessional refinance facilities by the Reserve Bank in respect of advances by commercial banks to these sectors. Thus a slight change was made in the technique used for selective credit regulation through influencing the terms and conditions of lending by the central bank to the banks.

26.2.4 At present, six commodity groups, namely foodgrains, sugar (including gur and khandsari), oilseeds and vegetable oils, cotton (including kapas) and cotton textiles (including yarn, man-made fibres and fabrics) are covered by selective credit controls of some type or other, in varying degrees of rigour.

26.2.5 In assessing the effectiveness of these controls from the point of view of the Committee, what is relevant is whether these controls can serve as an alternative policy instrument in lieu of physical controls. Thus, in other words the Committee's concern is somewhat different from that of the Reserve Bank which is essentially concerned with whether excessive bank credit is used for holding back stocks of commodities, whether the supply and availability of the item and its price have been regulated, and whether the flow of credit to the particular sector(s) consuming the concerned commodity is reduced so as to lessen the pressure on demand. The Reserve Bank's objectives, though related, are not limited to the impact of these controls on the supply/demand equation and, therefore, the price and availability of the concerned items.

26.2.6 The Committee feels that, by its inherent nature, this control, by itself, cannot be expected to keep the balance in prices, especially when the other factors are moving in the reverse direction. It would, of course, be true that if the influence of other factors affecting demand and supply is strong, the rising trend in prices could be aggravated by the easy availability of bank credit, which in India is cheaper than finance from other sources, for the purpose of stockholding. This is borne out by the fact that variations in prices and the extent of speculative activity are, in the short run, somewhat influenced by the expectations of the availability of credit. The Reserve Bank's claim, on the basis of experience in the last decade and a half, is that in the background of a constantly increasing demand for a commodity, any relaxation of credit control in respect of that commodity (or even an expectation of the same) has resulted in prices tending to rise, while there are instances when any tightening of such control had led to at least a temporary easing of the pressure on prices. This doubtless is seen to operate in the upward direction in the case of the highly speculative cash crops and industrial raw materials such as oilseeds, cotton, jute etc. This has also happened in the case of credit used by the organised industrial sector where, for financing of stocks of raw materials, the industry has primarily depended on bank finance.

26.2.7 However, the Committee notes that insofar as credit is only one factor influencing the demand for and supply of commodities, and also is apt to operate only indirectly on the price mechanism, it has limited uses. The Committee also feels that there are inherent weaknesses in the prolonged operation of such a policy which; under conditions of expanding investment expenditure and growing shortages, attempts to achieve a curtailment of demand pressures. Where bank credit is assured for priority sectors, the existence of non-banking funds makes the tightening of credit

policy for non-priority activities like stockholding, ineffective. The policy has the effect of only slightly raising the cost of speculative stockholding, but cannot prevent it. It is also difficult to restrict the end-use of bank credit only through these controls. In the circumstances, credit curbs have to be supplemented or even, at times, replaced by physical controls on the stocking or movement of goods, to curb speculation.

26.2.8 The Committee therefore feels that there are strict limitations to the efficacy of credit controls replacing physical controls. This is also explained by the fact that commercial bank credit finances only a small part of the marketable surplus of many of the items subject to selective credit controls as seen from the table below. Although, one should really take the bank financed stocks as proportion of the market arrivals, particularly in respect of cash crops, the ratios given below help to illustrate the problem.

Bank credit as a percentage of estimated marketable surplus in 1975-76

1.	Foodgrains (excluding public food procurement)	0.97
2.	Foodgrains (including public food procurement)	29.44
3.	Groundnut	1.81
4.	Rapeseed/mustard seed	0.44
5.	Linseed	0.47
6.	Sugar	9.22
8.	Cotton and kapas	14.41

26.2.9 The Reserve Bank of India had, very recently appointed an expert (one-man) committee to go into the working of the system of selective credit controls, we understand that the report, which has been submitted, is under consideration of the Reserve Bank. The Committee feels that while physical controls on commodities, if they can be effectively operated, would be superior to commodity credit curbs, the former may need to be reinforced by the latter in times of acute shortages and for short periods, Bank credit, after all, is a double-edged weapon - while too much credit may enable the withholding of stocks from the markets, the inadequacy of credit may also lead to bottlenecks in production or movement of the required goods, leading to a rise in prices. Thus, inadequacy of credit could defeat the very objective of these controls. Much would depend on the skill with which a balance is maintained between the two, and in actual practice this is difficult to achieve. This is all the more so as a sizeable part of credit to finance sensitive commodities in short supply can and does come from the unorganised market and even the parallel economy, even though such credit is more expensive. The Committee, therefore, feels that use of physical controls, in times of extreme shortages cannot be dispensed with, while a judicious combination of physical controls supported by credit controls, for short periods, would generally be more useful.

26.3 Differential Rates of Interest

26.3.1 The Differential Rates of Interest (DRI) scheme was into duced in the early seventies, after the report 1/ of a Committee appointed by the Reserve Bank of India at the instance of Government in 1970 to examine this matter. Although export credit used to be given at concessional rates even earlier, the Committee recommended the use of differential interest rates on a wider scale and basis in order to assist the underprivileged and the weaker sections of the population. The interest rates charged at present by commercial banks range from 4 per cent to 16 percent per annum, for different borrowers under different circumstances. The scheme has been sharpened over the years, and the target group identified for this purpose is given credit at 4 per cent interest, but the total volume of credit at this interest rate is only a small fraction of the total lending by banks- recently sought to be raised from ½ per cent to 1 per cent. Apart from this target group, loans at concessional interest rates are now also given to selected sectors or industries, e.g. under the recent Soft Loan Scheme of the IDBI for five selected industries, namely, textiles, jute, sugar, cement and engineering, for purposes of modernisation, rehabilitation, and diversification, so as to prevent industrial sickness. There is also another tier of concessional interest rate for industries set up in designated backward areas. Loans at concessional interest continue to be available to exporters in the form of export packing credit. The DRI scheme, however, is generally understood to refer to credit granted at the concessional rate of 4 per cent to the weaker sections of the population.

26.3.2 It has been suggested to the Committee by the commercial banking sector that numerous divergent schemes of financing at concessional interest, coupled with the recent directive to banks to put a ceiling on their lending rates, creates a problem for the banking sector in that its ability to grant concessional credit goes down. In effect this policy implies that the DRI scheme results in a limitation of the total amount of credit available from the banking sector to the sectors which are supposed to benefit from the scheme. This is achieved in various ways adopted by the banking sector to keep down the total quantum of lending under the DRI scheme. As indicated earlier, until recently, banks were lending only one half of one per cent of their total loans under the DRI scheme at 4 per cent.

26.3.3 Very recently, the banks have been told to increase their total lending under the DRI scheme to the weaker sections of the population - at 4 per cent interest from half of one percent to one per cent of their total lending. Even though this implies progress, there is an obvious ceiling - and a very low one- to the quantum of assistance that can be made available by the banking sector to the weaker sections of the population under the DRI Scheme. Nor can the ceiling be raised significantly for obvious reasons.

26.3.4 In the course of evidence tendered before the Committee, many representatives of the unorganised sector have suggested that it is the quantum and speed with which credit is made available to them for productive operations that really matters, and not the rate of interest. In short, it does not help a small artisan to be given a small percentage of the funds required by him at 4 per cent if he has to turn

1/ Reserve Bank of India : Report of the Committee on Differential Interest Rates, 1971.

to the traditional money lender for the rest of the funds required by him at extortionate rates of interest. Nor can the beneficiary turn to the commercial banking sector for the entire money required by him, because having lent at 4 per cent, the same bank finds it difficult to lend at a higher commercial bank rate of interest to the same person for the same purpose.

26.3.5 It has been represented to the Committee in a convincing manner during hearings throughout the country that the above differential interest rate policy has worked more as a token of Government intention to provide credit to the rural poor rather than an effective instrument to serve their immediate needs. It has been stated, for instance, that whereas a large entrepreneur can get institutional finance for a project costing Rs. 1 crore if he can put up Rs. 10 lakhs, the small artisan can at best get, say, 10 per cent of his requirements from various public institutional sources, and has to find other sources of finance for the bulk of his requirements. Indeed, the rural poor have to pay interest rates to money lenders varying from 3 to 5 per cent per month, and some times even more. On the other hand, from the long term point of view it would not be advisable to ask the banks to give credit to millions of village artisans and marginal farmers at a rate of interest which is so highly subsidised that it cannot be maintained. As a matter of fact, village artisans or poor farmers would be happy if timely and adequate credit is available to them at a rate of 12 to 14 per cent per year, and if a part of this credit is given in the form of inputs which are not available to them when there is marginal scarcity.

26.3.6 The Committee finds that the scheme of differential interest rates is only of symbolic benefit to small farmers, artisans and small producers. What these producers require is not part of the credit at a concessional rate but timely and the full amount of credit required by them at a reasonable rate of interest.

26.3.7 In order that the latter may become a reality, the Committee would recommend that not less than 20 per cent of additional credit should be deployed to the decentralised sector.

26.4 Control over long term finance

26.4.1 The Committee's interest in regard to long term finance arises essentially from the need for proper coordination between licensing and term lending policies and also to examining whether and to what extent scrutiny by the term lending institutions like the IDBI, IFCI and ICICI could replace the present industrial licensing system. The Committee is also concerned with the adequacy or otherwise of finance available for different sectors.

26.4.2 The Committee notes that term lending financial institutions like the IDBI, ICICI and IFCI are designed to meet the long term financial needs of medium and large scale industries, and that even the State Finance Corporations are geared to meet the financial requirements only of the medium and modern small scale industries. The really tiny units thus get left out of the pale of financial support from public financial institutions. Various other developmental bodies and boards set up for different commodities have no responsibility for financing the capital needs of the small producer. It is only the Agricultural Refinance and Development Corporation (ARDC) which refinances loans given by various agencies for agriculture and allied

activities. To give an idea of the amount of loan funds disbursed by these various institutions, during 1977-78, the IDBI, IFCI, ICICI and IRCI between them disbursed Rs. 472 crores of term loans to various medium and large scale industrial borrowers, while the State finance corporations and State industrial development corporations extended loans worth Rs. 137 crores primarily to modern small scale units and some medium scale units, in that year. The disbursements by the ARDC during 1977-78 for all activities, ranging from minor irrigation down to the setting up of gobar gas plants and forestry development, amounted to Rs. 234 crores during 1977-78. No estimates are available in regard to funds disbursed for the small producer or village artisan by different agencies.

26.4.3 The Committee notes that recently, the Reserve Bank of India set up four different Working Groups- after a meeting of the financial institutions with the Prime Minister- to look into various aspects of credit policy, with special reference to the credit needs of the really small artisans and farmers. The Committee further notes that the Working Groups set up by the Reserve Bank had not only made several useful recommendations to correct this lacuna, but also that these recommendations have been accepted by Government. It is too early yet to assess the results of the new approach proposed to be adopted. The Committee has already made certain general observations in Chapter 25 on the Decentralised Sector, in regard to the need for building or strengthening "sponsoring" institutions which may act as a bridge between the financial institutions and the small borrower, which may help in achieving the policy objectives in this connection.

26.4.4 In the evidence tendered before the Committee, the representatives of private industry have made certain representations to the Committee in regard to problems of long term finance available to industry, which are summarised below:

(a) Over a period of time, Government has taken under its ambit all sources of long term finance earlier available to the private sector, through the nationalisation of almost all financial institutions. Thus, the entire capital market is directly or indirectly under Government control. These institutions have lately become a delaying factor in the creation of industrial capacity.

(b) The recent streamlining of licensing procedures has had no effect, and can have no effect, in speeding up industrial investment unless the lending procedures and regulations of the financial institutions are streamlined and eased, and the grant of term loans to industry is speeded up.

(c) The recent legislation making the IDBI the apex financial institution, and the centralisation of powers and responsibilities with only one organisation, namely the IDBI, has made the task of private industry more difficult (rather than easier, as intended). A project somehow not finding favour with the technical experts of the IDBI now cannot even get considered by any other financial institution , even though one or the other of them may be persuaded of the financial soundness of the project.

(d) On the other hand, the supposed advantage of having one single evaluation of a project by one authority - instead of sequential consideration of the project by all the authorities - has not really transpired, and coordination between the financial institutions is still lacking, despite the system of inter-institutional meetings and the procedure of having one "lead" institution to examine the viability of each project.

26.4.5 Both industry circles and the commercial banks have also represented that the present Credit Authorisation Scheme of the Reserve Bank of India - which requires Reserve Bank approval of commercial loans by banks to "accounts" of more than Rs.2 crores each - is an unnecessary control which only delays the grant of loans for approved purposes. This is stated to be really unnecessary in respect of nationalised banks. The Committee feels that prima facie, there may be a case for removing such centralised control provided that —

(i) the guidelines are made clearer in regard to purposes for which credit may be given, at varying interest rates;

(ii) there is regular reporting by the banks, as to the status of these large accounts; and

(iii) an in-depth analysis of the sources and uses of funds by the large borrowers is undertaken, so that the guidelines for loans may be refined as these data are analysed and more experience is acquired.

The Committee would recommend that after providing clear guidelines in regard to purposes for which credit may be given, Reserve Bank of India approval of loans by nationalised banks to accounts of more than Rs. 2 crores each may be dispensed with, and the nationalised banks should be asked to report regularly as to the status of these large accounts to the Reserve Bank*.

26.4.6 Insofar as the problems of industry - and their suggestions at para 26.4.4 are concerned, an inter-departmental committee which was appointed in 1976 to look into the streamlining of procedures has set out various administrative steps and time schedules for different stages in the consideration of loan applications, and has also recommended that every loan application should be disposed of within a period of six months. It is the contention of private industry that all these committees notwithstanding, it takes years rather than months to get loans approved by the financial institutions. The Committee would like to add that the financial institutions have pointed out that by and large their decisions are fairly quick, and only in a few instances do they take longer than six months to a year. The Committee feels that the problems indicated are essentially administrative, and that such streamlining of procedures as may be necessary, should be undertaken by both the Government and the financial institutions.

* Dr. A.K.Ghosh has a different view.

26.4.7 To reiterate, term lending financial institutions and their functioning are an area of interest to the Committee essentially as an alternative instrument to the control exercised today by way of industrial licensing. There also arises the problem of subsidy involved in term finance being made available at concessional rates only to certain specified sectors of large scale manufacturing industry. The Committee has been advised by the financial institutions that it is for Government to lay down priorities, e.g. by way of industrial licences issued, and not for the financial institutions to exercise their judgement as to social priorities. In effect, therefore, the financial institutions themselves claim that their role is essentially to check the financial viability of projects, and not to go into the priorities in lending for the creation of industrial capacity.

26.4.8 While certain guidelines and priorities for term lending by the financial institutions have been laid down of late, these are too broad and general and allow them all flexibility to decide in regard to whom to lend. The guidelines are doubtless there, but they are not of any direct significance in attaining the objectives presently laid down, either in regard to employment orientation in industrial investment or even in regard to the priorities of investment at any given point of time, the backlog of past licences issued being a sort of "catch all" factor in this connection.

26.4.9 The Committee feels that in any case, the test of employment orientation cannot be left to a selection of industries to be set up. For each industrial unit, there is a wide range of choices open, in the selection of either labour saving equipment or employment oriented production processes.

26.4.10 The Committee feels that scrutiny by the financial institutions cannot replace the setting up of priorities by Government. The Committee would like to reiterate that the main function of industrial licensing is to direct investment in the priority and preferred sectors. In order that these priorities are adhered to in actual practice, it is necessary that the authorities providing the funds required for investment, namely, the financing institutions and the banking sector, must also act in concert with the licensing system. Hence, the involvement of the financing institutions both with the planning process and the industrial licensing system needs to be made more formal and regular. They should be represented on the Licensing Committee. The Committee feels that if the above course is adopted, it may be possible for the financing institutions themselves to increasingly direct investment in accordance with nationally approved priorities.

26.4.11 The Committee also feels that the present encouragement to the use of labour saving equipment is the result partly of the rate of interest and partly of fiscal incentives to the investment of capital. In part, this is also a function of the freedom to import, at a relatively low level of import duty, capital equipment not at present manufactured within the country, since sophisticated equipment, suited to the needs of labour short economies would not generally be manufactured indigenously. The remedy would seem to lie in corrections being applied to the above policies, all of which are beyond the purview of the term lending institutions. The Committee would, therefore, like to emphasise the danger of concessions on capital being freely given in favour of modern, large scale industry, as these may militate against the generation of new employment.

26.4.12 The Committee would therefore like to reiterate -

(a) that the concessional finance made available under the IDBI scheme for five selected industries involves a subsidy, and therefore needs careful re-examination of the end uses of the finance in order to ensure that the objective of promoting employment generation is not lost; and

(b) that in order to ensure that capital in requisite volume is available to the really small producer, be he engaged in agriculture or allied activities, or cottage scale manufacture, or in a service industry, there is need for a build-up or strengthening of institutions which can act as a bridge between the banks and the small borrowers, with some apex agency undertaking refinance of the term loans granted by banks to the small borrowers.

Chapter 27

PRICE CONTROL

27.1 Introduction

27.1.1 The broad approach of the Committee in the matter of price regulation has been indicated in Chapter 4. Two different types of problems arise in respect of agricultural and industrial prices, as indicated below.

27.2 Agricultural prices and price parities

27.2.1 Most essential consumer goods depend on an adequacy of supply of agricultural products, in particular foodgrains, edible oils, and agro-based industrial raw materials like cotton, jute and sugarcane. It has been seen in the chapters on Foodgrains, Edible oils and Vanaspati, Sugar, Textiles and Jute that price control on agricultural products has not worked successfully. The basic problem in agriculture has been the problem of supply, the augmentation and sustained growth of agricultural output. This is partly a function of agricultural research and the supply of necessary inputs for increasing agricultural productivity, partly a matter of the accident of rainfall, and partly also a function of the pricing of agricultural products. The determination of relative prices of agricultural products, such as would encourage the cultivation of the desired crops, is an important element in the planning process.

27.2.2. There are, of course, certain physical limitations in regard to the pattern of cropping. Certain crops require an assured supply of water which, for most part, would depend on irrigation facilities. Climatic and soil conditions also vary and limit the choice available to the farming community. The availability of infra-structure by way of storage (including cold storage), transport and marketing facilities also determines the cropping pattern. After these are accounted for, there still arises the possibility of a choice as between available alternatives. The choice over a period can be considerable, as may be seen from the steady diversion of irrigated land to the growing of sugarcane in areas otherwise not suitable for cane growing. This choice is based on the net return from cultivation to the farmer. The cost of purchased grain to feed the farmer and his family also dictates the use of a fairly large percentage of land for subsistence cultivation, particularly in areas not suitable for profitable commercial farming.

27.2.3 That subsistence farming is not universal is demonstrated in Kerala where cultivators with marginal or sub-marginal holdings of less than one hectare are yet quite prosperous because of the possibility of growing high value commercial crops which are possible in that terrain owing to climatic and other environmental conditions.

27.2.4 That relative prices are an important consideration for the farmer in determining his cropping pattern is generally accepted now. This has also been recognised in the early years of the existence of the Agricultural Prices Commission (APC). One of the very first of APC reports on the Price Policy for Jute dating back to February 1966, emphasised the importance of a support price, and of the jute/rice

price ratio as a determinant of the jute/rice acreage pattern. To quote from the Report 1/ of the APC in this context —

> "Support price as understood by the Agricultural Prices Commission is a price at which the Government gives an assurance to the farmers to purchase all quantities offered for sale. Thus, it sets a floor to the downward fluctuation of the price. . . . . The maximum limit can be observed only if there is an adequate buffer stock with the public authority . . . . In normal times, however, subject to the floor, market prices have to be allowed to adjust to demand and supply.
>
> "The following criteria were suggested for determination of the minimum price for raw jute:
>
> (a) cost of production of raw jute,
> (b) parity between prices of raw jute and paddy,
> (c) parity between the prices of jute goods and raw jute."

27.2.5 The above philosophy appears to have informed the deliberations and the reports of the APC until the end of the decade, as reflected in the Report of the APC on Price Policy for Jute for the 1967-68 season submitted in March 1967, and the Report of the APC on the Price Policy for Sugarcane for the 1969-70 season, as issued in January 1969. To quote briefly from the latter, the APC states 2/ that —

> ". . . . . the total realisation by the growers from the entire cane crop is what would determine, in a large measure, their incentive for cane cultivation relative to other crops in the coming season. . . . . . When it is reckoned that the prices paid for the cane flowing to gur and khandsari too are lower than last year, the total income to the cane growing community this year might be less than what it was last year. . . . . ."

27.2.6 Latterly, the principles defined earlier by the APC appear to have been generally neglected, and emphasis appears to have been placed increasingly on -

(a) the cost of production as per various farm studies in order to ensure to the cultivator a reasonable price; and

(b) the need to secure an increase in the output of the major cereals so as to achieve self-sufficiency in the matter of foodgrains production.

27.2.7 In order that the support price policy can succeed, it is also necessary to operate a buffer stock so that stability of supply can be assured.

27.2.8 The Committee notes that in price fixation the recommendations of the APC have been observed more in the breach than otherwise, the worst example being the case of sugarcane in respect of which a number of State Governments have in the

---

1/ Report of the APC (mimeographed) on Price Policy for Jute 1966-67 Season: Paras 15-17

2/ Report of the APC on Price Policy for Sugarcane for 1969-70 season, January 1969, p.3.

past announced "State-advised" prices significantly in excess of prices notified by the Central Government on the basis of the recommendations of the APC. The consequences of this policy have been brought out earlier in Chapter 14 on Sugar. The two points of relevance in this connection are, first, the need to focus attention on relative prices in order to bring about the optimal utilisation of the limited land resources in the country; and secondly, the desirability of the Government accepting, as a matter of convention, the recommendations of a technical body like the APC or the Bureau of Industrial Costs and Prices (BICP), in the matter of price fixation. It is desirable in this connection to not only vest these bodies with the requisite status and dignity but to man them with highly reputed, independent and impartial people who may combine juridical objectivity with high technical expertise in their deliberations. It is also necessary in this connection to announce support prices for major crops before the sowing season. This would be in contrast with the present procedure of settling a matter as vital as the procurement price of competing crops on the basis of negotiations with the State Governments which may justifiably be expected to project the interests of growers in their respective States, as has occurred in the past before harvesting, and not before sowing.

27.3 Regulation of Industrial Prices

27.3.1 Certain special issues arise in the regulation of industrial prices. The supply of industrial products is partly a function of Plan priorities and the plan investment programme; partly a malter of private investment and therefore of various conditions of and restraints on private investment (dictated by other objectives of social policy); and partly a function of realistic pricing such as would attract investment for the creation of new capacity. The objectives underlying the regulation of agricultural prices are generally different from the objectives of control over industrial prices for agricultural products. The practice now is for the Government to generally fix minimum support prices so as to protect the income of farmers. For industrial prices it is usual to fix maximum industrial prices so as to limit the cost to the buyers, both consumers and small processors of intermediate products. In the context of control over industrial prices certain issues of economic and technical nature arise in the process of price-fixing.

27.3.2 Controlled prices are fixed on the basis of costs. The calculations made for deriving an estimate of average cost of production raise a number of problems.

27.3.3 Costs of capital goods change over time. While this is true of all other goods, changes in the prices of raw materials are immediately reflected in costs while changes in capital goods prices are reflected in costs only when capital goods get to be replaced.

27.3.4 Price control authorities can in this connection, only take depreciation of capital in terms of historical costs, and not actual replacement costs. In most industries today, depreciation provision based on historical cost has become grievously inadequate for replacement. In the steel industry, for instance, capital costs per tonne today are about eight times what they were 20 years ago. Owing to the steep escalation of all prices after the Oil price hike of November 1973, capital costs of most projects started after 1973 are around three to four times the cost of projects completed before 1972. For capital intensive industries, where the cost of servicing capital is a significant part of total cost, this poses a major problem.

27.3.5 The marginal cost of the marginal unit cannot obviously constitute the base price for purposes of price control. Such a procedure would in fact make it unnecessary to have any price control. On the other hand, the present position is that most of the industries subjected to price control are not able to finance even the replacement of capital, let alone expansion, out of internally generated funds. In some industries like steel, investment has been undertaken by the Government, but this has necessarily had to be based on savings extracted out of the rest of the economy. This both limits the resources deployed to raising steel capacity, and involves a covert subsidy from the community to all users of steel. In other areas like cement and paper, public sector investment even though undertaken, has not ensured adequate growth. In still others like vanaspati and steel re-rolling, price controls have not been effectively enforced and illegal profits have been made.

27.3.6 Corporate savings have helped many other economies to achieve rapid growth. This is true lately of socialist economies also, where enterprises are State owned. The surpluses to be generated by public sector enterprises have been repeatedly emphasised in successive Plans and government pronouncements as a major potential source of savings in the community for industrial investment.

27.3.7 In India which has a low rate of savings, there is strong justification for ensuring that the development of key and basic industries should not be retarded; and this requires that they should be encouraged and enabled to save funds for their expansion.

27.3.8 It is possible to ensure that depreciation (or other special) funds are reinvested by making it a statutory requirement. A scheme for providing an additional allowance in the "retention price" (to be separately funded, and used for replacement, modernisation and expansion) has been tried with some success in the past in the cement and steel industries.

27.3.9 Certain other problems arise in regard to price fixation, especially with reference to the determination of norms of costs. One issue arises from the concept of capacity utilisation. The present convention is to take the output at the level that the industry ought to achieve. In practice, the targeted capacity utilisation has generally been so fixed as to be unachievable for most firms. In steel, capacity utilisation of 90-100 per cent was so far above the actual achievement in Durgapur and Rourkela that such a target could have had no incentive effect. In aluminium, capacity utilisation depends on power supply which is outside the control of aluminium producers. In agriculture-based industries, capacity utilisation is normally governed by the raw material supply. Hence, there is justification for taking the average output over the past few years, say three years, rather than the output in any one single year, as the basis for either determining cost norms or allocating depreciation.

27.3.10 A major issue in price fixation arises from fluctuations in prices of raw materials. Clearly, controlled prices should take into account such as may make the changes in input costs.

27.3.11 The rate of return to be allowed in price fixation is another matter on which past practice has led to a lack of investment interest in all industries under price control. The return needs to be high enough to attract the finance required by an industry

for its growth. The formula lately adopted, namely, to allow a certain post-tax return on net worth, is a significant improvement on the past practice to allow a pre-tax return of 12 or 15 per cent on capital employed. Though this formula has obvious merit, even here two problems arise : first with regard to sick or near sick units where the capital base may have been eroded; and secondly, in regard to the divergence between the replacement and historical cost of capital, the net worth being, in an extreme case, reduced to only the free reserves after the capital is formally depreciated. Clearly, adjustments are necessary to these formulae so that industry is in a position to re-invest. The "funding" of a part of the price for such purposes offers such a possibility.

27.3.12 Several other problems arise in price determination by any official agency, as for instance divergent operating costs of plants based on different production processes (not always within the control of the entrepreneurs but dictated by Government policy, as for instance, for fertilisers); lags in price fixation (based on accounts for past years) which make prices unrealistic and unprofitable even before they are given effect to; overall diseconomies arising from solutions like price and freight pooling which result in unknown costs to the economy from increased and avoidable transport. The problem of lags in price fixation can be avoided by a suitable automatic escalation formula.

27.3.13 Price control is usually resorted to only in respect of essential articles. In the process, it leads to a lack of investment interest in industries producing essential articles. The result is a compounding of the shortages of essential commodities, and increased investment in luxury industries. One way of introducing price control and yet improving the availability of the item in the long run would be to earmark a part of the price as a 'development levy', the proceeds being used for specially expanding capacity.

27.3.14 Price control implies subsidisation of the consumer; and where output is insufficient to meet the entire consumer demand, it leads to a subsidisation of the consumer who is able to secure the product at the controlled price. By and large the objective of price control is frustrated because, in the normal course, the weaker sections of society are unable to obtain supplies at controlled prices because (a) Government does not have an adequate share of the supplies, and (b) even where supplies can be commandeered, the public distribution system is poor.

27.3.15 The process of fixing controlled prices by itself generates considerable problems as outlined above; the difficulties of enforcing price control or achieving its objectives are additional. In view of these problems, a number of alternative principles are suggested, corresponding to varying degrees of control, depending on the nature of product, and the implementability of price and distribution controls -

(a) Price controls should be avoided wherever possible by eliminating shortages through an increase in supplies as for instance for food-grains, edible oils, etc. Prices should be regulated wherever possible with the help of buffer stocks, imports and creation of additional capacity.

(b) Where (a) is not possible, and direct control on prices becomes necessary, the controlled price should not be based on costs only but should be designed to achieve a certain planned rate of growth through the generation of internal funds.

(c) Where (b) is not acceptable and prices are so fixed that they do not ensure generation of internal funds, other sources should be assured to ensure that the desired rate of growth, irrespective of profitability is achieved.

(d) In short, price control should invariably be accompanied by a package of measures calculated to increase supply and availability of the controlled products.

CHAPTER 28

DISTRIBUTION CONTROL AND BUFFER STOCKS

28.1 Introduction

28.1.1 Past experience of price control, as also studies by the Committee lead to the conclusion that control over prices is meaningless without adequate control over the system of distribution, which in turn cannot be achieved unless there is proper machinery for effective distribution. Even though price controls can be dispensed with when shortages are overcome, in view of the imperfections in the market system in India, some form of regulation over distribution may still be necessary with a view to ensure the protection of the vulnerable sections of society. Again, distribution controls in one form or the other may become necessary as a check against anti-social practices which surface from time to time as a result of the market imperfections, leading to hoarding, speculation and profiteering by the creation of temporary shortages in isolated areas.

28.1.2 The subject has assumed special importance lately because significant extension of the public distribution system has been accepted by Government as a policy, on the unanimous recommendations of all Chief Ministers in a Conference held in January 1979. Such a system has been deemed to be essential, first, as a check against the possible undesirable activities of private traders, and secondly, in order to ensure that the benefits of the public distribution system reach down to the weaker sections of the population.

28.1.3 The origin of the public distribution system can be traced back to 1942, with the commencement of statutory rationing in 13 important cities. The present coverage of the public distribution system - insofar as it concerns foodgrains - has been indicated briefly in Chapter 12 on Foodgrains. It has been seen that though it is claimed that public distribution of foodgrains through fair price shops covers more than 95 per cent of the population, in actual fact the present coverage of the public distribution system is not really adequate either in terms of geographic areas effectively covered, in terms of the population in these areas effectively serviced or in terms of the basket of commodities made available from the public distribution system. Also, there is neither any uniformity nor any long run continuity in regard to the product coverage of items made available through the public distribution system. Without going into detail, it can be stated that the product and the population coverage of the public distribution system at present are rather thin, notwithstanding the claim made in this behalf.

28.1.4 Divergent systems of public distribution have been introduced from time to time to serve the needs of the weaker sections of the population, for different items as also in different States. As would be seen in Chapter 12 on Foodgrains, a separate scheme adopted by the State Government in Punjab provides for the supply of wheat atta, pulses and edible oils and vanaspati at subsidised prices, from shops specially opened in areas where the weaker sections of the population generally live. Both Punjab and Haryana have plans to introduce a distribution system providing for the supply of both essential consumer goods and important inputs for the rural population under the Integrated Rural Development Scheme, such distribution outlets being opened in every "focal village", so selected as to provide a retail outlet no farther than 3 to 4 kilometres from each village. It has also been seen that statutory rationing has been continued by the West Bengal Government in Calcutta and in the Durgapur-Asansol industrial belt, with the modified rationing scheme operating in all the other areas through Fair Price Shops.

28.1.5 On the other hand, it has also been seen in Chapter 12 on Foodgrains that even in Kerala, where the public distribution system has reportedly been working well in the past, the system has of late been running rather thin, and offtake from the official fair price shops has declined significantly, after the lifting of the control over movement of foodgrains and as a result of the easy availability of grains from privately owned shops outside of the public distribution system.

28.1.6 There have been several reasons for the above experience. The cost of the public distribution system has, by all accounts, been high, partly because of the limited range of products sold from ration shops - and, therefore, the low turnover - and partly because the wage/salary/dearness allowance levels and working hours of the public sector are different from those applicable for the private distribution system, which raises the cost of public distribution. This has certain important lessons in regard to the system and structure of public distribution to be evolved, so that the benefits of public distribution can be combined with the lower cost of private distribution.

28.2 Revised scheme of public distribution system

28.2.1 A new scheme for production-cum-distribution of essential commodities formulated by the Ministry of Commerce, Civil Supplies and Co-operation was discussed at the Conference of State Chief Ministers and Ministers for Civil Supplies on 5th January, 1979. The essential features of the scheme are as under —

(i) Sustaining production of essential commodities by the concerned Ministries of the Government of India and the State Governments.

(ii) Expansion of area coverage particularly in rural areas to ensure that every village or a group of villages having a population of 2,000 and above has a fair price shop. In remote and inaccessible areas particularly in tribal belts, the population coverage for a village or a cluster of villages as the case may be, could even be, 1,000.

(iii) For strengthening the system, commodity coverage should be extended to edible oils and selected manufactured articles of mass consumption, in addition to the existing items like wheat, rice, coarse grains (when available), controlled cloth, soft coke and kerosene.

(iv) The distribution system should consist of economically viable units. As much use as is possible should be made of privately owned fair price shops subject to their coming under the code of discipline. Preference may, however, be given to outlets set up by the co-operative sector and other public agencies.

(v) Successful implementation of the distribution system would depend on the procurement and buffer stocking of the identified commodities by public agencies. For this purpose stocking-cum-distribution centres will have to be located in each State/Union Territory. Also it would be necessary to set up appropriate agencies for undertaking procurement and import to the extent required for buffer stocking.

(vi) In regard to certain selected manufactured articles the Central Government would assist in the establishment of direct link between the manufacturers and the States and their approved agencies including co-operatives for distribution of such items.

(vii) Subsidies, if any, should be confined to buffer stocking operations.

(viii) Establishment of consumers' committees with local public participation in ensuring the quality of supplies and their availability at fair price shops, better service to consumers and elimination of various malpractices. The State Governments while granting licences to fair price shops should impose suitable conditions stipulating that the licensees should accept voluntary trade discipline including supervision by the above committees.

(ix) Constitution of high power committees at the Centre and State levels for co-ordination and supervision of the totality of the distribution scheme.

(x) The monitoring and information systems should be strengthened by the State Governments to keep constant check on production and availability of essential commodities, and to take necessary corrective action well in time.

(xi) The State Governments should ensure active participation of people in production and distribution of essential commodities.

28.2.2 During the discussions on the scheme, a number of new commodities were suggested for inclusion in the public distribution system. These include agricultural inputs, agricultural implements, wheat products, salt, pulses, tea, baby food, washing soap, cement, paper, drugs, diesel oil, potatoes, poultry products, mustard oil, galvanised steel sheets and aluminium sheets for housing, etc. Some of the major observations made by the Chief Ministers at the Conference were —

(a) Government should exercise an effective control over the production, procurement and distribution of essential commodities produced by the private as well as the public sector industrial units to the extent these are required for distribution through the public distribution system.

(b) The supply of pulses and controlled cloth should be augmented.

(c) Buffer stocks of essential commodities should be held in different States so that these could be moved quickly.

(d) Credit at concessional rates of interest should be made available to retail outlets of the public distribution system.

(e) Exports of all essential commodities should be prohibited till the production and availability within the country is adequate to meet the needs of the people.

(f) There should be uniformity in local taxes on essential commodities and in order to keep the prices of such commodities as low as possible, they should be exempted from import duty, excise duty and other local taxes as far as possible.

(g) Essential commodities should be sold throughout the country at uniform prices.

(h) Consumer committees should be formed to keep a vigilance over the working of the fair price shops.

(i) Orientation training should be given to the workers of the fair price shops.

(j) Special arrangements should be made for the needs of hill areas and other inaccessible areas.

28.2.3 The Committee has considered these recommendations, and its views on these as well as on the suggestion made to it during its hearings, are incorporated in the recommendations made later. The Committee feels that on one particular aspect of the problem, it should clarify its views at this juncture. The selection of items for public distribution has to be undertaken carefully. Baby food, for instance, is essentially an item of urban middle class consumption. The stocking of baby food by fair price shops in areas where there may be a demand for it, may be useful in that an increase in the turnover of the fair price shops may improve their viability. In that sense, not only baby food but also many other items may be stocked by fair price shops. But the focus of attention should not get diverted from the problem of supply of essential consumer goods to the weaker sections of the population. Secondly, the Committee feels that all the items mentioned cannot obviously be handled by the same agency. A grocery shop cannot efficiently handle the distribution of diesel oil and cement. Considerable thought is necessary as to the best way of organising the distribution of textiles. Innovative techniques of marketing like the use of mobile vans which may visit certain areas on designated days should be considered for some of these items.

28.2.4 Furthermore, there also arises a major problem of providing basic necessities at reasonable prices to migrant construction workers. It so happens that even shops of private traders are sometimes miles away from the construction sites. Where such facilities are provided at or near the site by the contractors, the prices are usually high, and this deprives the worker of a substantial part of his earnings because he has neither the time nor the energy to obtain his provisions from the regular retail shops at a distance. The public distribution system should cover all major construction sites, and provide at least all the basic minimum necessities like foodgrains, edible oils, and other requirements like kerosene oil.

28.2.5 Another problem that is faced by such workers is that when they start working, they do not have any savings with which to acquire any provisions before they obtain their pay. The private trader provides credit but charges an enormous rate of interest by way of a higher price or even by way of an interest rate when loans are made in cash. Where regular construction activities are undertaken, the public distribution system should endeavour to provide the workers with at least a week's provisions in advance, for which some system should be evolved for adjustment of this amount through payments to be made to the contractors over a period.

28.3 Evidence tendered before the Committee

28.3.1 In the evidence tendered before the Committee, four different strands of thought have emerged. All the State Governments without exception have emphasised the need for enlarging the public distribution system as essential for safeguarding the interests of the vulnerable sections, and also as a check on the activities of private trade. The body of retailers throughout the country has suggested to the Committee that the cost of private distribution is much less than the cost of public distribution and has pleaded that it should be allowed its legitimate role in the distribution system in the country. The owners of fair price shops have generally represented that they should be permitted to trade in non-controlled items - which they have been allowed to for some time - and have also represented to the Committee that they should be allowed higher margins for sales of foodgrains and other essential items; that they should not be harassed by numerous inspectors; that ways should be found to reduce the gratification required by Government inspectors which leads to the need for under-the-counter transactions; and that in any case they should not be prosecuted for purely "technical" voilations and offences which have no substantive content. In particular, the requirements of the number of registers to be maintained and entries to be kept in the registers on a daily basis are such as are not feasible to comply with, without a significant increase in expenditure on staff to be deputed merely for this purpose. This aspect of the matter has been discussed already in Chapter 7 on Essential Commodities. Finally, the workers of the Food Corporation of India have represented to the Committee that they do not have adequate promotion prospects, and that their rights and promotion prospects should be safeguarded. This, incidentally, highlights some of the problems of public distribution, namely, the bureaucratisation of an essentially trading operation.

28.3.2 Reference has already been made to the present functioning of the public distribution system, its inadequacies and its problems. The Committee has also benefited from a study on the distribution system in the matter of cement, white printing paper and edible oils and vanaspati, undertaken on its behalf by the Administrative Staff Collage of India, Hyderabad. The findings of the study point to wide differences in distribution arrangements at the level of State administrations, and the general absence of the monitoring of end-uses of the items which are subject to public distribution. The study also points out that there is at present a fair amount of leakage of supplies, the leakages occurring at diverse points in the distribution system. Apart from improving the system of distribution, the study highlights the need for a proper monitoring system so that the benefits of public distribution accrue to the sections for whom the system is devised.

28.3.3 Reference to various other research studies and surveys in regard to the working of the public distribution system also indicates that the experience is somewhat mixed. The system of providing essential consumer goods through co-operative stores in Bombay and Coimbatore to the vulnerable sections of the population has reportedly proved to be a success in the sense that the system has been economically viable in the face of other competitive sources of supply. It appears, therefore, that the system could work efficiently provided certain safeguards are considered.

28.4 Ingredients of an efficient distribution system

28.4.1 The Committee feels that the first requisite of an efficient system of distribution is the management of aggregate supply and demand in a manner which

would be conducive to efficient distribution. The maintenance of an adequate buffer stock, and the management of supply through imports where necessary are broad policy steps which are essential in order to ensure successful functioning of the distribution system without developing unbearable strains. Where temporarily the supply is still likely to run short, the management of demand through appropriate fiscal and monetary policy adjustments is another step which is necessary in this connection. Nonetheless, the Committee recognises that for reasons already indicated, a public distribution system is still necessary. Additionally, a public distribution system is also necessary for certain essential items even in situations of adequacy of aggregate supply because of the need in India to subsidise the consumption of those below the poverty line. Here again, while the longer term solution to the problem lies in tackling the problem of incomes - through various means like the "Food for Work" programme - it may still be necessary to supply certain minimum essential consumer goods to the vulnerable sections of the population on a subsidised basis. It has already been indicated elsewhere, in Chapter 12 on Foodgrains for instance, that supply of millets and certain other items consumed only by the poorer people - as reflected in the purchase of atta in place of wheat in Punjab for instance - may provide the method of reaching the subsidy to the target group since such facilities are not likely to be used by the more well-to-do sections of the population.

Buffer stock operations

28.4.2. In view of the predominant influence of food and other agricultural products in the Indian economy, a policy of buffer stock operations is essential in order to maintain stability of prices and of availabilities. The rationale of buffer stock operations does not need any elaborate justification. In a primarily agricultural country, where nearly three-quarters of the area sown is dependent on the state of the monsoon, considerable fluctuations in agricultural production can be expected as a normal occurrence. In a year of bumper harvest, the income of the farming community can be protected only through a policy of procurement at support prices, so that an excess of supply in the market does not depress prices to the detriment of the income of the farming community. Likewise, in the event of a failure of the monsoon, the consumer would need to be protected against steep increases in prices, which can be effectively controlled only if the authorities can augment supplies through releases from buffer stocks built up during the years of plenty. While imports do provide a means to augment supplies, the import alternative is not always available with the required speed, there being many difficulties like the availability and price situation in the international market as also the limitation of port capacity to handle sudden, large increases in import.

28.4.3 Buffer stocks need to be maintained not only in regard to primary agricultural products but also in regard to other primary commodities - which are inputs for items important from the point of view of mass consumption - these primary commodities being subject to large speculative fluctuations in the international market.

28.4.4 The maintenance of a buffer stock involves a cost. The size of buffer stock to be maintained for each item calls for specialised study. The Committee would only wish to emphasise that the size of the buffer stock should be such as would provide reasonable stability in prices and supplies, which would depend on the degree of variation

that the output of any item is normally subject to, and the degree of protection from fluctuations that is required. The Committee feels that the cost of buffer stocks needs to be charged from the consumers for some items, but for some other items, this cost has to be borne by the tax payer. The rationality and applicability of each has been given earlier in Chapters 12 and 20 on Foodgrains and on Non-ferrous Metals respectively.

28. 4. 5 The success of the public distribution system would depend very largely on the ability of the authorities to commandeer a reasonable part of available supplies in the event of shortage. A buffer stock would strike at the root of the problem, and not only ensure the availability of supplies for the public distribution system but also even out fluctuations in the availability of the relevant items for all, through controlled releases from the buffer stock.

Machinery of distribution

28. 4. 6 The precise machinery of distribution to be built up in connection with public distribution of mass consumption goods is an important issue. The approach of the Committee in this connection is an electic one. The Committee would recommend the maximum use of the private distribution system, which should work under a discipline and under conditions laid down, for orderly supply of all essential consumer goods. The Committee notes that the private distribution system has already been used efficiently not only by private industry as for instance for the distribution of tea, soap and matches but also by public sector agencies as for instance for the supply of bread in all major towns by the Modern Bakeries Limited.

28. 4. 7 There is also need to encourage co-operatives. To an extent, a reduction in the number of retail outlets for similar products under the aegis of Government may help in the reduction of overheads, and where distribution can be undertaken by the co-operatives, this could further improve the viability of the system. The Committee agrees that the public distribution system should be made viable by increasing both the range of products available from it and by reducing overheads, for which direct supply from manufacturers could help to reduce the spread between ex-factory and retail prices.

28. 4. 8 The Committee notes that in India, different commodities are in surplus or in short supply from time to time. Indeed, this is a peculiar characteristic of any economy with a somewhat fragile equilibrium between demand and supply. The Committee feels that the machinery for distribution should be such as can quickly move into an item in which shortage arises, so that the public distribution system can commandeer a reasonable part of the available supply, for sale to the vulnerable sections of the population.

28. 4. 9 The Committee would also recommend that in order that the vulnerable sections of the population are properly supplied with essential commodities at a subsidised rate, a special ration-card system ought to be devised so that the benefit of subsidised supplies reaches only the population below the poverty line as defined by the Planning Commission. The system suggested is not as complex as is frequently made out to be. In the past, Government has succeeded in preparing adequate and up-dated rolls for special needs, and it should not be beyond the capability of the administration to do the same again provided that the requisite decision were taken. For instance, after the partition of the country in 1947, each of the refugees from West Pakistan

could be given a card within a few months. The Election Commission is able to prepare electoral rolls for the entire adult population in the country once every five years. Between the Integrated Rural Development Scheme, the scheme for concessional finance for diverse purposes, and the grant of subsidies under the SFDA, MFAL and other programmes, both the administration and the banking sector are able to prepare a roster of all people who may be eligible to concessional finance and subsidies under one or other of the extant schemes. In some States, as for instance Maharashtra, there is experience in regard to the issue of "pass books" to all cultivators growing cotton, for purposes of the monopoly cotton procurement scheme. In this background, it should not be beyond the capacity of the administrative machinery to prepare cards which would be available only to those below the poverty line, for drawal of rations and other supplies at concessional rates.

28.4.10 The Committee would like to suggest a further safeguard, already emphasised by the Chief Ministers, namely, the need for adequate storage capacity in different consuming areas so that sudden localised shortages do not arise. The additional storage cost incurred in remote areas including the hilly regions must of course be subsidised, but the distribution system is unlikely to function smoothly unless adequate storage capacity is built up in these regions for ensuring continued supply of essential commodities throughout the year.

28.4.11 Finally, the Committee would reiterate a point discussed more fully elsewhere, namely the need for monitoring of the distribution system through appropriate consumer councils and committees of citizens.

Chapter 29

GENERATION OF BLACK MONEY

29.1 Introduction

29.1.1 Among the many sources of black money generation, the regime of controls has been an important one. The Wanchoo Committee 1/ has referred to many aspects of controls as an important source of black money and has, inter-alia, observed:-

> "During the War.....imbalances in the economy and acute shortages of various goods developed. Shortages had to be regulated by imposing controls on distribution and profiteering and tax evasion.
>
> "Shortages and controls did not, however, end with the War......In spite of the vigilance exercised by the Government, controls and regulations came to be used by the unscrupulous for amassing money for themselves. Since considerable discretionary powers lay in the hands of those who administered controls, this provided them with a scope for corruption - 'speed money' for turning a blind eye to the violation of controls. All this gave use to trading in permits, quotas and licences, malpractices in distribution and, in the process, it generated sizeable sums of black money."

29.1.2 An important point of note is that quite apart from the fact that controls where not effective have not benefited the consumer, an important consequence is the loss of revenue for Government arising from the difference between the actual price and the invoice price, the latter having to be limited to the price permitted under the control system. This leads to evasion and underpayment of the excise duty and of the sales-tax as also later of the income-tax by those who evade the control. While it is not possible to estimate the loss of revenue arising from the existence of the control system, there is no doubt that the magnitude would be substantial.

29.2 Manner of generation of black money through controls

29.2.1 The Committee would like in this connection to make some general comments, and draw certain lessons in regard to the means of avoiding black money generation through controls. This is because some controls may still be necessary in the larger national interest, and for reasons already indicated earlier. The manner of generation of black money, as indicated in earlier chapters, is briefly summed up below.

29.2.2 The licensing of capacity or the licensing of import, where it confers a privilege on the recipient not available to others, gives rise to the possibility of corruption. It is for this reason that the Committee has recommended non-discretionary controls to the extent possible, by changing the system and by announcing lists of banned or open items for investment purposes as well as for import. It would be desirable to have as small a list of restricted items involving individual discretion as may be possible. Quite apart from corruption in the determination of the party to be conferred monopoly privilege, the very fact of licensing gives rise to possibility of petty corruption through delays in the issue of licences.

1/ Report of the Direct Taxes Enquiry Committee, December, 1971.

29.2.3 Price and distribution controls have in the past led to the generation of black money on a significant scale. Any price control without an adequate machinery for distribution and speedy arrangement for increasing supplies is potentially a source of black money generation. Such controls do not benefit the consumers, and should therefore be eschewed.

29.2.4 Leakages in the distribution system even where price control is accompanied by distribution control, is another potential source of black money generation. It follows, therefore, that distribution control should only be attempted after making sure of the machinery of distribution, and that price control should not be attempted without control over distribution.

29.2.5 It has been seen earlier that this problem has affected a large number of commodities, ranging from major inputs like coal and steel to other essential articles required by the people in general, like cement and paper. The Khoj Parishad, which has looked into the generation of black money in the distribution of cement and paper, and the Administrative Staff College, Hyderabad, which undertook a special study of the distribution of edible oils and vanaspati, cement and white printing paper, have both pointed out the numerous points of leakage in the system, and of the significant generation of black money in the process. The attempt to regulate prices in the consumer interest where demand is in excess of supply or availability, is therefore fraught with the danger that instead of benefiting the target group, the control may only lead to black money and untaxed profits.

29.2.6 It has also been seen earlier that rent control leads to "pugree system" and is yet another source of black money generation.

29.2.7 Harassment to the public and petty corruption, as a result of the existence of controls, stems from the large number of licences required by traders and others engaged in various forms of economic activity requiring "satisfaction" of the large number of Inspectors; from delay in the issue of licences; and from the payment of hush money for ignoring violations of controls. In many instances, controls are imposed without any serious intent to implement them. Where controls are not implementable, they have led to harassment and black money generation. Quite frequently, the control laws are too complex to be understood by the common man and this has led to the generation of black money.

29.3 Safeguards

29.3.1 Reference has already been made earlier to the superiority of non-discretionary controls or policies which may not leave wide discretionary authority with the administration in the implementation of Government policy. The management of demand and of supply can be attempted through a variety of ways. The maintenance of a buffer stock is one. The management of demand through the fiscal system, through excise duties, through realistic exchange rates and control over money supply, and the management of supply through imports to augment domestic availability where necessary, are alternatives open to Government, and should be pursued assiduously. Essentially, the effort should be to achieve a surplus economy so that the need for control disappears, and the direction to be given to the achievement of Plan objectives can be left to broad policies and non-discretionary controls over economic activity, of the type indicated earlier.

29.3.2 Where it is not possible to dispense with physical controls, such controls should not only be minimised, there should also be suitable monitoring of the control administration as well as of the working of the controls. The Committee notes that some regional newspapers publish regular black market rates of certain commodities as also of import entitlements. Black money is such an illusive phenomenon that normal statistical machinery may not be adequate to monitor it. This is also why market information, sample surveys and other unorthodox methods should be employed to collect data of black money generation in specific trade and industry as the situation demands. Even though the fact of black money generation through controls is known, it is difficult to quantify the precise amount of black money that gets generated and which creates a parallel economy, nullifying credit control and other economic policy measures of Government. It is, therefore, of the utmost importance that controls should be avoided where possible, and should not be prolonged where leakages and the generation of black money cannot be prevented; and that there should be a proper scheme for the implementation and the monitoring of controls.

Chapter 30

IMPLEMENTATION AND MONITORING

30.1 Introduction

30.1.1 Whatever the objective of a regulatory measure it is likely to have numerous side effects. The Committee has noted in Chapter 4 on Approach that a control measure should be feasible. The feasibility of a control measure is linked to its simplicity, and more particularly, to its implementability. This principle applies equally to subsidies.

30.1.2 As indicated by the Committee earlier, controls may be classified as "promotional" and "corrective". Regulatory measures which are promotional in character have to be part of the Plan strategy. But short term exigencies lead to the need for corrective controls. This is where problems begin to arise - quite apart from the problem of implementation - in the side effects of a control measure. For example, a control introduced with the intention of ensuring the availability of a particular commodity at a fair price is likely to lead to a re-allocation of resources. An effect of this type may have been foreseen but not precisely forecast, and corrective action may not get taken unless there is continuing monitoring of the economy.

30.1.3 The Committee notes that the Draft Plan (1978-83) has placed special emphasis on the problem of implementation, monitoring and evaluation of Plan programmes [1/]. The organisational build-up and the system of feedback envisaged should help to monitor promotional controls, since these have to be linked to and dovetailed with the Plan strategy.

30.1.4 But the problem remains, and is perhaps even more acute in respect of any regulatory measure which needs to be introduced at short notice, owing to sudden exigencies of the developing situation. Forecasts can go wrong, and do go wrong. Any control system has to be adjusted in the light of changes as these emerge. Sufficient thought may not have been given to the machinery for the implementation of controls, particularly in the case of price and distribution controls, and at times even for production controls.

30.1.5 A control system has also to ensure that those who are adversely affected do not succeed in circumventing the controls, as for instance in the case of powerlooms encoaching on the areas reserved for handloom production.

30.1.6 Controls also sometimes create situations which offer opportunities for unintended gains to some people. The system tends to develop leakages, and in the process defeats the objectives of controls.

30.1.7 The machinery for the implementation as also for the monitoring of controls should thus be considered both at the pre-control stage as well as kept under continuing review during the currency of the control. For this purpose, an identification of the problem areas or the possible points of leakage, and an early warning system are pre-requisites. Indeed, as of now, Government becomes aware of leakages or of a failure of the control system only when there is a hue and cry

1/ Draft Five Year Plan (1978-83), Chapter 8, p. 119.

through newspapers and other media. The response is to put up hastily devised preventive measures. A proper monitoring scheme should provide a means for early indication of the mal-functioning of not only the control measures but also of the other elements of the package of measures adopted.

30.1.8 The above calls for a system of continuous feedback from the field, from such segments of the economy as are likely to be affected by a control or a subsidy. This system will naturally involve, besides the control authority, a number of government departments. It also calls for need for harnessing support of citizens' forums, consumers' associations, trade unions as well as chambers of commerce and associations of industry. The role of each body will depend on the control or control areas sought or required to be monitored.

30.1.9 The Committee would, therefore, recommend that the devising of a proper implementing as well as monitoring system should be an integral part of any control system.

30.2 Nature of control and monitoring

30.2.1 The controls that have come to regulate the economy are many, having diverse objectives. Obviously, no single model of monitoring can be applicable and useful in all cases. Apart from the widely divergent objectives, the sectors of economy, the activities, the economic agents likely to be affected indicate that no single approach would suffice. Indeed, even in areas where the objectives may be similar, different solutions may have to be sought in regard to control machinery as well as the monitoring of controls. For example, in cases like the supply of cement and foodgrains, although the objective may be the same, namely, that consumers should get these commodities at a fair price, the control machinery as well as the monitoring model would need to be quite different.

30.2.2 Although it is difficult to classify all the controls that are on the statute book in accordance with the monitoring model that may be relevant, it would still be useful, if only for illustrative purposes, to try and distinguish controls on the basis of broad objectives of policy.

30.2.3 There are controls and regulations which seek to guide the economy in terms of Plan priorities and certain socio-economic objectives. Controls like the Industries (Development and Regulation) Act, the Monopolies and Restrictive Trade Practices Act, etc. are all of this type. Then there are a number of commodity controls which seek to regulate the production, distribution, and/or prices of commodities with the objective that a target group of consumers gets its requirements at reasonable or fair prices. This group of controls would require a different and a more complex implementing as well as monitoring system. There are some other controls which could be grouped with either the first or the second category, and yet require a control machinery as well as a monitoring system not identical with either of the above. Import/export control and Company Law typify such controls. Finally, there is yet another group of controls, like those on weights and measures, quality control regulations, controls on construction activity, or controls on credit which may be classified into yet another class of controls in regard to which no generalised system of monitoring can be prescribed, and it would be necessary to devise a special monitoring system for each of these.

30.2.4 There are, however, some essential requirements which need to be met by any reasonably satisfactory and successful system of monitoring for different controls.

30.3 <u>Implementation machinery</u>

30.3.1 As far as promotional controls are concerned, the machinery of implementation has been discussed pithily in Chapter 8 of the Draft Plan (1978-83). The implementation of such controls is the responsibility of the normal administrative machinery of Government, assisted by the various developmental agencies created to meet the long term needs of planning. The successful implementation of such promotional controls would therefore be a function of the clarity and unambiguity with which the control parameters are spelled out, and the extent to which conflicting objectives are successfully reconciled, and clear guidelines issued to the administrative machinery, in regard to various aspects of the control system. Lack of clear perception of the precise means of achieving the accepted goals of policy is one of the major reasons for halting progress in this connection; and the problem is accentuated by the pressure of vested interests.

30.3.2 The implementation of corrective controls presents a bigger problem in regard to the implementation machinery. In the first place, by their very nature, such controls are imposed as a result of short term problems as they emerge, and hence, reliance has to be placed wholly on the normal administrative machinery for their implementation, without the advantage of the support of any special developmental agencies or organisations. Secondly, the implementation machinery has to reach down to the local micro-level, and in the absence of well thought out scheme, the local authorities in charge of administering the control are unable to exercise effective control. This is one reason why controls become unpopular, arising from inadequate or imperfect implementation, leading to harassment and graft.

30.3.3 Much the same problem arises with the disbursement of subsidies, unless objective criteria can be laid down; or subsidies given on items required only or largely by the weaker sections of society, as for instance millets and coarse varieties of rice among foodgrains, dhotis and sarees woven from low counts of yarn etc.

30.3.4 As far as corrective controls are concerned, the Committee has therefore already recommended reliance, to the extent possible, on overall policy measures like fiscal adjustments, to achieve the policy objectives. Nonetheless, where reliance on controls does become necessary, considerable prior thought has to be given to the problems of implementation before instituting controls. The Committee feels that vague announcements, or hastily devised controls, can do more harm than good in such situations. The Committee would only like to call to mind the experience of the take-over of the wholesale trade in wheat in April 1974, and the experience of the announcement of price control on mustard oil in September 1977, both fairly recent, and the cardinal lesson thereof, namely, the inadvisability of rushing into any control without devising or identifying a suitable machinery for its implementation.

30.3.5 To some extent the problem of implementation can be solved by -

(a) organising both small producers and the consumers into co-operatives/associations - as suggested earlier, in Chapter 14 on

Sugar in respect of cane growers for running sugar factories, and in Chapter 15 on Textiles in respect of cotton growers for cotton ginning and pressing factories, as also in Chapter 28 on Distribution Control in respect of consumer co-operatives for the supply of essential consumer goods; and

(b) laying down guidelines and norms - as already followed in respect of, say, capital issues - so that no formal approval or control may be necessary as long as the would-be-applicants follow the guidelines laid down.

30.3.6 But after the above possibilities are fully made use of, there may still arise the need for instituting corrective controls. In such event - indeed, in any event, in respect of all controls - the 'monitoring' of controls becomes an important desideratum.

30.4 Data system

30.4.1 One of the major handicaps which policy planners in any developing economy have to face is lack of adequate data. Indeed, the lack of adequate data hampers not only policy formulation but also the devising of an effective control machinery, or the subsidisation of the needy sectors. For a monitoring system to be able to evaluate the effectiveness of the control measure, there must be a machinery which will disseminate information on the functioning of the control system through timely supply of all relevant data. The requisite data must not only flow automatically, and without delay, but there must also be a system or a machinery which would classify and convert these data into information essential for evaluation and continuing appraisal of the working of the control. The monitoring system must, therefore, provide for collation and analysis of the data being collected. The analysis should highlight aberrations, distortions and departures from anticipated or intended results so that corrective steps can be taken in time.

30.4.2 The data required would naturally differ in respect of the evaluation of controls on investment, on production, on prices, on distribution, on stockholding, and on external transactions. For example, for purposes of the evaluation of the working of Industries (Development and Regulation) Act in relation to an industry, it is necessary that data on the actual creation of new capacity, its geographical distribution, ownership and control, etc., are quickly collected and added to data on existing capacity and its distribution, so that, when applications for further industrial licences in the same industry are to be considered, the data on existing capacity and fresh capacity under implementation may be kept in mind. Along with these data, the past behaviour of supply and demand for products of the industry also need to be collected and analysed to see if there has been an imbalance of some kind, and what the rate of growth of demand for the product is. It is only when such information is available that the IDR Act can be used for a rational licensing of new projects in different industries. The above information will also have to be supplemented by an analysis of the supply of raw materials for the industry. Some inputs can be imported but some others are not tradeable. For instance, power is a non-tradeable input.

30.4.3 In a way, these data are necessary for any excercise in planning. The monitoring of promotional controls is, therefore, a part of the monitoring of the progress of Plan programmes.

30.4.4 In the realm of commodity regulation, the data needs are even greater and more diverse. Indeed, the collection of relevant data and their continuous up-dating presents numerous problems. For one thing, the production of some commodities is diffused, and data in regard to production in the decentralised sector are not easy to organise, at any rate speedily, and on a continuing basis. The objective of attaining a more equitable pattern of distribution presents problems because of the wide geographic dispersal and still wider income dispersion of the beneficiaries. Both characteristics pose problems of quick and effective reporting, and, as a result, lack of proper feedback. For commodity controls, therefore, the data needs become even greater.

30.4.5 The data system must also provide for an effective early warning system. Indeed, for a large number of agro-based essential commodities, such a system is the only means to avoid being taken unawares, and having to put through a hastily devised control system which has in the past frequently made the control system an object of general derision.

30.4.6 The collection and processing of data involves a cost. It would perhaps be true to say that the collection of data by diverse agencies of Government, for different purposes, from the same set of producers or organisations, has become endemic. Unfortunately, the data collected are neither tabulated nor analysed. To give only one example, it was seen in Chapter 16 on Jute that the Jute Commissioner gets regular fortnightly returns from all licensed jute traders, on the stocks of raw jute held by them. These returns are not tabulated; and the Jute Commissioner does not even know whether there are defaulters who do not send the returns. In the result, the very purpose of collecting the data is lost, while at the same time imposing a cost on the trader, and infructuous expenditure on maintenance and filing of these data. This is but one instance of the proliferation of forms and returns, required by diverse authorities without much thought, and without any arrangement as to the tabulation and analysis of these data.

30.4.7 The Committee feels that the collection of data from the field should be carefully planned, and data collected should be quickly tabulated and analysed. This is an essential requirement of monitoring. At the same time, the collection of inessential data should be dispensed with. Apart from any other effect, the very presence of a mass of inconsequential details may divert attention from the pertinent facts, which may also remain untabulated together with the mass of irrelevant data.

30.4.8 The data requirements will obviously be different depending on whether the control is sought to be exercised at the production or distribution stage and/or also in regard to prices.

30.4.9 Aggregative data are generally available today, though for most part only with a considerable lag. The need is for both disaggregated data, and their prompt availability.

30.4.10 The problem of the data system has been studied by a number of expert committees from time to time, and is, in any case, a matter for specialised study.

In more recent times, the Minhas Committee 2/ has gone into the lacunae in official data system, and made certain recommendations. The matter was also studied by the Indian Econometric Society 3/ which convened a special Seminar on the subject, and the Indian Association for Research in National Income & Wealth 4/ which has published a report on the data system required for short-term forecasting and monitoring. The Committee would urge that Government should look into the recommendations of these specialised bodies and experts, and take suggested follow up action to strengthen the data base, especially from the point of view of monitoring short term developments in the economy and of the functioning of diverse corrective controls as applied from time to time.

30.4.11 Although the organisation of the data system is a matter for careful examination, since the success of any monitoring system would depend on the efficacy of the information system, the Committee would suggest the following broad, simple changes in the extant system, in regard to data pertaining to organised industry. These suggestions are being made only as examples of how the existing data system can be adapted with relatively simple changes, to suit the need for monitoring—

(a) As far as large scale units are concerned (i.e. those borne on the lists of the DGTD, the Textile Commissioner, the Jute Commissioner, et. al.), monthly data should be collected under the IDR Act, so that the supply of data is put on a statutory basis. Normally, the information required may be quite simple; but where any control is imposed, e.g. control over the output-mix on the paper industry under the Essential Commodities Act, additional data requirements should be incorporated in the regular return to be submitted, without duplicating the supply of similar or very similar data, and at best an additional copy of the (more comprehensive) returns obtained for the use of the control authorities.

(b) This would imply a rationalisation of the number, variety and complexity of returns to be submitted by industrial undertakings, to diverse authorities. As indicated earlier, the malady has today reached endemic proportions. The Committee would recommend that a separate expert group should be asked to examine the diverse returns obtained from industrial undertakings by different authorities today, so that the time, energy and money of all concerned may be saved. To reiterate, both the supply of data, as well as their collection, collation and tabulation involve a cost. Since vital information gets lost in a maze of irrelevant information today, it is necessary to streamline the data system, so that an efficient monitoring system can be devised without adding to administrative costs.

(c) The DGTD has already installed computer facilities for tabulation of data received by it. Once the number of returns to be submitted by industrial undertakings is reduced, all undertakings should be required to supply data promptly, and the tabulation of the data should also be undertaken quickly.

2/ Report of the Data Improvement Committee, Ministry of Finance (Department of Economic Affairs), Government of India, June 1970 (mimeographed).

3/ Data Base of Indian Economy: Review and Reappraisal (issued by the Indian Econometric Society); Vol.I, July 1972.

4/ Indian Association for Research in National Income and Wealth: Journal of Income & Wealth - Vol. 2, New Delhi, April, 1978, p.95.

30.4.12 Where a control extends over widely dispersed production units, there arise difficulties in enforcing any detailed control system, and a system of demand or supply management may be a better alternative to direct, physical controls. Nonetheless, as noted earlier, physical controls would still be necessary in certain areas. For instance, the reservation of certain categories of cloth for production by handlooms is a control of this nature. It would be necessary in this connection to monitor the operation of the control system insofar as powerlooms are concerned. The control can be exercised in such cases in a number of innovative ways. Expansion of powerloom capacity can be controlled by monitoring the production and sale of looms, even of discarded looms. The production by powerlooms can be monitored by a link-up between the excise department and the control department in regard to the production so that the type of output by such units can be monitored.

30.4.13 The above is only an example. The point to note is that "monitoring" of controls cannot be divorced from the feasibility of implementation of controls; and where a control is feasible, it is also capable of being monitored. It is, therefore, necessary to identify the control points, and devise a data system and monitoring system with reference to input/output flows at selected points of control.

30.4.14 Price and distribution controls can be classified into two categories: first, controls over the price and distribution of intermediate products; and secondly, controls over the price and distribution of consumer goods. Both raise numerous problems though the monitoring of both types of controls may present problems of similar dimensions.

30.4.15 Controls over price and distribution are always more difficult to monitor than control over production. Control over a long chain of distribution involves multiple points of control. Similarly, even though production units may be few, and the monitoring of the price at the point of production may be easy, the monitoring of prices at successive points in the chain of distribution to the final consumer may not be quite easy. In terms both of supply of inputs to dispersed producers in the decentralised sector, as well as of the supply of consumer goods to people in far-flung areas, the monitoring of control over price and distribution presents serious problems.

30.4.16 The existence of a public distribution system presents the possibility of ensuring proper distribution. Equally, the monitoring of the distribution system is possible provided that the tasks of the distribution system are clearly laid down. Again, the monitoring system can also be devised with relative ease and assurance of success provided imaginative new approaches are evolved for the purpose. Steel is an intermediate product, and monitoring the use of steel by the decentralised sector - when the price of steel was pegged down to unrealistically low levels - has proved both expensive and unsuccessful because the monitoring was attempted through a remote organisation, namely, the Iron & Steel Controller's Office, whose inspectors were supposed to undertake periodic inspection. Since all manufacturers require bank credit and since the provision of bank finance carried with it some minimum monitoring by the lending institutions, the allocative system as well as monitoring could be linked to financial assistance. The monitoring of control over other inputs, like, say, fertilisers, could be effectively attempted by linking the supply of inputs to procurement which may also provide an assurance of food supply, and, therefore, of distribution control over food. However, the linking of the supply of inputs with procurement of output does not help the subsistence producer, and successful monitoring can in the

event be applied only where there is such a link. The Khadi and Village Industries Commission extends assistance to village industries, and the implementation of both controls and subsidies relevant to this sector could be linked to the KVIC.

30.4.17 The monitoring of controls can be facilitated by self-monitoring by business, and by monitoring by committees of consumers, as discussed later.

30.5 Control points

30.5.1 It is essential for the control system to identify the points at which monitoring should be undertaken. The control points would depend on the nature of product, whether only production or prices and distribution also are to be controlled, the distribution channels that are proposed to be used, and a number of other factors.

30.5.2 The effectiveness of the monitoring system would depend on the number of monitoring points. These should be as few as possible. This also implies that the possibilities of leakage from the system should be few; or in other words, the control points should be few. The errors, problems of monitoring and slackness in control increase as the number of control points increase. While there can be no single prescription in this regard, and while the number would depend on the product involved and the objectives of a particular control, in general, the control authorities must work out a flow chart as it were, of the item proposed to be controlled, so as to pinpoint the possibilities of leakage in the system and to institute a monitoring system for these points, even prior to imposing the control.

30.5.3 For price and distribution controls to be really successful, and also to permit their successful monitoring, several preconditions are necessary. First, there should not be a very large gap between demand and supply. When this happens, it becomes difficult to check corruption, and even an independent monitoring authority can either get corrupted or find itself helpless. Secondly, if for a short period, such a gulf does arise, the only remedy would be a very strict rationing of the supplies, which would require an efficient public distribution system. Efficiency in the matter of public distribution would call for a variety of data, and openness of the system to public scrutiny and public criticism. "Leakages" can start with inflated demands by the States or by the users of the controlled materials. Diversion of the essential commodity controlled, be it cement or steel, controlled cloth or white printing paper, kerosene oil or soft coke, is possible in the distribution system since the final consumption units are widely spread all over the country. The remedy would lie in making for a fair system of controlled supplies, reducing the overall gap between demand and supply through price and fiscal adjustments, having a well organised and accountable system of distribution, and as indicated earlier, wide publicity to the system and monitoring by citizens' committees.

30.5.4 As far as agriculture based essential commodities are concerned, the monitoring of supplies is possible only if timely data become available. It is neither feasible nor desirable to exercise direct control over agricultural production. Monitoring should, therefore, be confined to quick and reliable data collection, so that Government is able to arrange timely supplies through imports where necessary, and over a period, bring about a shift in the cropping pattern where necessary, through appropriate changes in price parities. Support prices and buffer stock operations provide the answer to the problem of supply management in agriculture.

30.6 Monitoring agency

30.6.1 An important question in regard to the monitoring system is the agency which should be entrusted with the task of monitoring. Monitoring is necessary at different levels. At the primary stage, monitoring has to be undertaken by the control authority, and the agency which should do so would naturally differ from control to control, depending on the authority exercising control. The same applies to subsidies. However, this would not be adequate. Since the target group which is supposed to benefit from a control measure or a subsidy is likely to be spread all over the country, monitoring will need to be structured at different levels.

30.6.2 Apart from monitoring of controls by different agencies directly involved in operating a particular control, there is need for a separate cell or agency, to be set up in the Planning Commission, which should continually monitor the functioning of controls in relation to the Plan programme and Plan targets. This agency should review the operation of controls and subsidies in the light of the objectives of policy, and the intended beneficiaries of the controls or subsidies. It should also keep in touch with the concerned Department or Ministry in regard to the management of supply, so that controls can be phased out over a period, after adequacy of supply has been ensured. For this purpose, there would need to be closer links between the concerned administrative Ministry and the monitoring cell in the Planning Commission.

30.6.3 Similarly, a separate monitoring cell or agency should be set up within State Planning Boards to review the functioning of both Central and State level controls and subsidies particularly those implemented by the local authorities.

30.6.4 The central monitoring agency in the Planning Commission should also function as a co-ordinating body. It should collect and interpret data received from State monitoring agencies.

30.6.5 In the area of commodity controls, the regulation of production, distribution and prices is not a durable and long-term solution to the problem. The real solution lies in the identification and execution of plans and programmes which would correct a disequilibrium between demand and supply. In this sense, the Planning Commission's role in the monitoring system would appear to be of basic importance. Thus the monitoring of controls becomes a part and parcel of the monitoring of various Plan projects. Information and feedback from the monitoring of controls should provide the Planning Commission with a basis for modifying programmes in Annual Plans.

30.7 Consumer committees

30.7.1 The monitoring of the public distribution system can be expensive, unless consumers councils and similar agencies are promoted and encouraged into undertaking the necessary monitoring. Constant vigilance is necessary on the part of the entire body of citizens in regard to the monitoring of price and distribution controls.

30.7.2 Government policy in the matter of public distribution seeks to ameliorate the conditions of precisely those who are the least organised, and therefore, least capable of protecting their interests. Nonetheless, this is an area where proper publicity, encouragement, and even expenditure to bring about increased awareness among the people as to their rights as well as responsibilities particularly in the matter of supplies of essential articles involving a substantial subsidy, would be justified.

30.7.3 The Committee would recommend that the task of building up a vibrant consumer movement be given greater importance by Government. There should be not only wide publicity and propaganda but there should also be administrative recognition and at least in the early stages financial support, to the constitution of really representative bodies of consumers. Such bodies should be given the responsibility for overseeing the functioning of the control system, receiving complaints, and resolving the problems by the pressure of public opinion on the functioning of the fair price shops. The constituting of consumer councils to oversee the functioning of fair price shops in each area is thus a necessary safeguard in the proper functioning of the distribution system. As stated earlier, wide publicity as to the quantitites available should be made, and the norms of entitlement explained so that there is no panic buying of any item in relative short supply.

30.7.4 To cite only one example, the Fair Trade Practices Association (FTPA), Bombay, was constituted in 1966 to promote self regulation in industry and trade and to protect and promote the consumer interest, with a minimum of outside control. The FTPA has advocated the setting up of a Consumers Protection Council, and wide publicity being given to a Charter of Rights of the consumers. The FTPA has evolved a 9-point code of fair trade practices, as under:-

(1) to charge only fair and reasonable prices and take every possible step to ensure that the prices to be charged to the consumer are brought to his notice;

(2) to take every possible step to ensure that the agents or dealers appointed by him do not charge prices higher than fixed;

(3) in times of scarcity, not to withhold or suppress stocks of goods with a view to hoarding and/or profiteering;

(4) not to produce or trade in spurious goods or goods of standards lower than specified;

(5) not to adulterate goods supplied;

(6) not to publish misleading advertisements;

(7) to invoice goods exported or imported at their correct prices;

(8) to maintain accuracy in weights and measures of goods offered for sale; and

(9) not to deal knowingly in smuggled goods.

In May 1978, the FTPA was reconstituted as the Council for Fair Business Practices, but it has remained a body without any broad support or authority. It would be desirable to nurture such bodies, finance their revival, encourage active membership and participation, and give them increasing responsibilities. Encouragement to the formation of consumers' co-operatives and the establishment of direct links between production units and co-operative supply agencies is another way of ensuring better distribution, as well as the monitoring of distribution of essential items.

30.8 The role of chambers of commerce and industry

30.8.1 In many countries, chambers of commerce and industry play a positive role in enforcing self-discipline and a code of ethical conduct among members. In contrast, chambers in India have primarily grown to be either general purpose "grievance lobbies", concerned by and large with making representations to Government on laws regulations and policies affecting business and industry, or specialised pressure groups representing sectional interests of different trades and industries, again, generally for projecting their narrow viewpoints.

30.8.2 There is, of course, certain to arise some difference between the functioning and the role of chambers in surplus economies and chambers in scarcity ridden economies. Even among the former, there have evolved two types of industry and trade associations: the Anglo-Saxon type, with voluntary membership and services; and the Continental type, with compulsory membership and an obligatory list of minimum functions.

30.8.3 The lack of representative character of the chambers is a major limitation in India, in the way of the chambers exercising any voluntary regulation on the activities of the members or in monitoring their activities. Another weakness of the chambers stems from the weak financial position of many or most of them. By and large, the chambers are not particularly well organised owing to their financial weakness. This also makes the chambers unwilling or unable to exercise any discipline over their members.

30.8.4 It is not as if the Articles of Association of many of the Chambers do not envision certain broader responsibilities. For instance the Articles of Association of the Indian Chamber of Commerce, Calcutta, state that among its objectives are "establishing just and equitable principles in trade and to form a code of practice to simplify and facilitate transactions of business", and similar provision exists in the Memorandum and Articles of Association of most other chambers.

30.8.5 Notwithstanding the above general intent, the chambers in India have not been known to exercise any discipline on individual members in regard to their behaviour and functioning, except for one or two isolated and specialised associations. One reason for the divergence between intent and practice has been the financial weakness of most chambers, and their small membership. To take any action against an errant member could imply reduction in membership and loss of revenue. Also, where a chamber fails to take action against a powerful member, the example is not lost on the others.

30.8.6 The Committee has been informed that several local chambers or associations have, from time to time, carried out some of the monitoring and disciplining functions currently under discussion. The Committee, is, however, constrained to note that the formal response it has got, particularly from the large all-India chambers - representing a multiplicity of associations and organisations - has not been particularly encouraging in the matter of self regulation by the chambers.

30.8.7 The Committee is aware that there is general distrust of the business community by the masses of consumers in the country, There has also been a general lack of response to the proposal on the part of the existing chambers. The Committee would nonetheless suggest a modest beginning to be made in the direction of self monitoring and self regulation by the business community. The Committee would like, in this connection, to cite the example of chartered accountants who have not only constituted an association and evolved a code of conduct for themselves, but have

invested the association with the power to "deregister" any member who violates the "code of conduct" laid down for the members. The system has worked reasonably well. Similar authority vests with the Indian Medical Council who can deregister any medical practioner if a charge of unethical conduct is proved against him.

30.8.8 The Committee would like to recommend that a beginning could be made by attempting, in respect of specified industries, crafts and trade that membership of a chamber should be compulsory for all those who are in that profession, such chambers being organised at the local level with at least one chamber in each district and these chambers should be required to draw up a code of conduct which they would be required to enforce on all members; they should also be vested with powers to deregister errant members.

30.8.9 The Committee would also like to suggest that the chambers themselves can best demonstrate their seriousness and their capability in this regard by voluntarily taking on the observance of a code of conduct in areas and on matters which are not subject to Government control today.

The Commttee would urge early consideration by Government of its recommendations summarised in the beginning of the report.

Vadilal Dagli
(Vadilal Dagli)
Chairman

* Era Sezhiyan
(Era Sezhiyan)
Member

* Bagaram Tulpule
(Bagaram Tulpule)
Member

* L C Jain
(L. C. Jain)
Member

Sanjoy Sen
(Sanjoy Sen)
Member

A K Ghosh
(A. K. Ghosh)
Member Secretary

New Delhi, the 14th May, 1979.

---

* Subject to a Note

We would like to record our sense of appreciation for the outstanding contribution that the Member-Secretary Dr. A.K. Ghosh made in the difficult task of collection of data and drafting of the report. The Committee also benefited by his rich experience of economic administration. The contribution of Dr. Ghosh should be judged in the context of the fact that Committee had only ten months of effective functioning to prepare a report on an area which covered nearly the entire economy.

(Vadilal Dagli)
Chairman

(Era Sezhiyan)
Member

(Bagaram Tulpule)
Member

(L. C. Jain)
Member

(Sanjoy Sen)
Member

New Delhi, the 14th May, 1979.

NOTE

Regarding Chapter 5 on Industrial Approval in this Report, we give below our point of view on the need to control the concentration of wealth and means of production to the common detriment:

A major objective of government policy is to curb the growth of large houses so as to prevent excessive concentration of industrial and economic power in a few hands. At the same time, Government seeks to expand capacity in several core sector industries like cement, fertiliser, petrochemicals, steel, power generation, etc. Since expansion of capacity in these industries requires large investments which are unlikely to come from small entrepreneurs, Government has permitted large houses to enter or expand in these industries. Further, term lending institutions have been asked to provide finance for such projects on easier conditions in respect of debt-equity ratio and promoter's contribution.

It is certain that the entry or expansion of large houses in these sectors will add to the total assets of these houses and lead to greater concentration of industrial power in their hands. To permit them to do so, and that too on finance obtained from public term lending institutions on conditions easier than those applicable for smaller projects, obviously runs counter to the policy objective of preventing concentration of industrial and economic power.

We, therefore, recommend that Industrial Houses whose assets have already exceeded a specified limit - say Rs.100 crores - should not be allowed to set up a new unit or substantial expansion on any ground whatsoever. We further recommend that in so far as large investment projects are concerned the investment should preferably be in the public sector.

Sd/-
(Era Sezhiyan)

Sd/-
(Bagaram Tulpule)

Sd/-
(L.C. Jain)

27/4/79.

FURTHER NOTE

While there is no disagreement in the Committee about the objective of curbing the concentration of economic power, we feel that the problem of concentration of economic power can and should be tackled by the exercise of powers that the Government already possesses for curbing such concentration. In most large units, the share of the public financial institutions in the equity is frequently above 40 per cent or more, when the share of those who are actually running the unit is but a fraction of the equity held by Government directly or indirectly. If and where necessary, it is possible for Government to exercise effective control over the management of such companies by virtue of the share of equity held by public financial institutions. Additionally, under Company Law, Government can appoint upto six directors on the Board of any company, and there are other provisions for controlling the activities of the Board of Directors and top management of any company. The Company Law Board have also to approve of the appointment of the Chairman, Managing Director or whole-time Directors of all companies. With these powers, the Government should be able to control the unacceptable growth of concentration of economic power. We would, therefore, recommend that the Government should use these powers effectively to regulate and curb the concentration of economic power and the growth of monopolies.

Sd/-
(Vadilal Dagli)

Sd/-
(Sanjoy Sen)

Sd/-
(A.K. Ghosh)

New Delhi,
April 30, 1979.